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ABSTRACT

The council's recommendations for 1977 for college-based financial aid programs and for the guaranteed student loan program are both summarized and explained, and the progress of financial aid programs in 1976-77 is reviewed. The latter review includes the training of aid administrators, aid application simplification, regulations and guidelines, differences of opinion within the financial aid community, the determination of academic good standing, college work-study, fraud, threats to the National Direct Student Loan and Supplemental Educational Opportunity Grant programs, and the Guaranteed Student Loan program. The recommendations cover management considerations, reorganization of the Office of Education, aid program information and dissemination, transferability of funds, overawards, aid administrator training and certification, good academic standing, the role of the states, independent and nontraditional students, aid program flexibility, income tax credits, professional schools, student bankruptcy, and loan consolidation. Appended are: the text of an address by Edward Fox to the advisory council; Roy Thomas Codgell's model for streamlining federal aid administration; items relating to aid administrator certification; and a brief bibliography relating to the aid problems of small private colleges. (MSE)

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ED145770

# THIRD ANNUAL REPORT
# of the
# ADVISORY COUNCIL ON
# FINANCIAL AID TO STUDENTS

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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LETTERS OF TRANSMITTAL TO THE VICE PRESIDENT

AND

THE SPEAKER OF THE U.S. HOUSE OF REPRESENTATIVES

MAY 1977 WASHINGTON, D.C.

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

April 30, 1977

Honorable Walter F. Mondale
President of the Senate
Washington, D.C.

Dear Mr. President:

I have the honor to transmit to you the enclosed report on activities of the Advisory Council on Financial Aid to Students for the Calendar Year 1976.

The Council was established under Section 499 of the Higher Education Act of 1965, as amended, to advise the U.S. Commissioner of Education on matters of general policy arising in his administration of programs relating to financial assistance to students and on evaluation of the effectiveness of these programs.

Sincerely yours,

John P. DeMarcus

John P. DeMarcus
Chairman, Advisory Council
on Financial Aid to Students

Enclosure

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE
OFFICE OF EDUCATION
WASHINGTON, D.C. 20202

April 30, 1977

Honorable Thomas P. O'Neill, Jr.
Speaker of the House of Representatives
Washington, D.C.

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Chairman, Advisory Council
on Financial Aid to Students

Enclosure

## COUNCIL CHARTER

The Council advises the Congress, the Secretary of Health, Education, and Welfare, the Assistant Secretary for Education and the Commissioner of Education. The Council shall advise the Commissioner on matters of general policy arising in the administration by the Commissioner of programs relating to financial assistance to students and on its evaluation of the effectiveness of these programs.

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Mr. Warren T. Troutman—Executive Director of Advisory Council on Financial Aid to Students

## COUNCIL MEETINGS—FISCAL YEAR 1977

September 29, 30, 1976, Hyatt Regency Hotel, Washington, D.C.

December 6, 7, 8, 1976, Hyatt Regency Hotel, Washington, D.C.

January 27, 28, 1977, Ramada Scottsdale Inn, Scottsdale, Arizona

May 5, 6, 1977, Olde Colony Motor Lodge, Alexandria, Virginia

## SUBCOMMITTEE MEETING

May 3, 4, 1977, Olde Colony Motor Lodge, Alexandria, Virginia

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The views expressed herein are
exclusively those of the Council.

# THIRD ANNUAL REPORT OF

# THE ADVISORY COUNCIL ON FINANCIAL AID TO STUDENTS

## INTRODUCTION

The work of the Advisory Council on Financial Aid to Students is cumulative. The *First Annual Report* of the Council, published March 21, 1975, proceeded from a basic assumption that the demand for student aid would continue to grow during the ensuing decade even though the number of traditional students may decline during the 1980's. The Council recommended annually increased funding of student aid and reliance upon College Work-Study as the most widely-accepted and prominently-featured form of student support. As funding needs increase, the Council felt that requisite flexibility will be provided by Guaranteed Student Loans and by National Direct Student Loans and that the latter should not be abolished, even though there are pressures to do so, until such time as Guaranteed Student Loans prove capable of meeting all reasonable demands. Pursuant to national efforts in attaining this goal, the Council recognized grave problems in connection with liquidity of the student loan paper itself, and recommended that Congress take whatever steps necessary to endow student loan paper with sufficient quality to satisfy United States regulatory agencies' acceptance as official reserves.

The *First Annual Report* also made what was then a novel suggestion concerning a sliding scale of Federal guarantee levels for student loan paper, the scale depending upon default rates experienced by the lenders.

The First Report also came out strongly in support of retention of Supplemental Educational Opportunity Grants as a necessary Federal program, providing latitude in the construction of student aid packages and, just as importantly, affording some degree of choice to the student in selecting his postsecondary institution.

The Council's *Second Annual Report* was issued June 24, 1976. Two of its central concerns were access and choice, and the extent to which these objectives have been accomplished in all types of accredited higher education institutions. It recognized that the Basic Educational Opportunity Grant program should be the foundation on which other aid programs are awarded and it persisted, for the second year, in strong support of College Work-Study. It recommend, further, that a parallel Work-Study program be created by the Congress, with similar matching requirements but, in this case, matching money to be provided by the States and the programs operated by appropriate State organizations, utilizing enrolled students in off-campus, vocationally-oriented and socially-oriented jobs.

Both the First and Second Annual Reports called for simplified student application forms and for unified need analysis procedures along lines initiated by the National Task Force on Student Aid Problems, commonly known as the Keppel Task Force. Further, the Council pointed to the immediate need for thorough training, at Federal initiative if necessary, of institutional financial aid officers. The Council called for a significant enlargement of the staff in the Office of General Counsel in the Office of Education, to expedite the writing of regulations and manuals, in response to complaints by the financial aid community about lack of sufficient, up-to-date guidelines.

Finally, the *Second Annual Report* contained many recommendations for the Guaranteed Student Loan program, many of which have since become law.

In reviewing its deliberations during the last year, the Council notes for future debate that it has given consideration to a reversal of some of our basic premises undergirding existing student aid legislation. The concept of "entitlement" to postsecondary education gradually has become the accepted norm, and entitlement has come to mean grant. We have assumed that children of low income families need outright grants, while other forms of aid are to be considered supplementary. Thus, the Basic Educational Opportunity Grant program become law. The Council will be giving attention to the possibility that "entitlement" ensures loans and work-study, but Federal grants would follow as supplemental to these in cases of greater need.

## RECOMMENDATIONS FOR COLLEGE-BASED PROGRAMS FOR 1977

I. The Council recommends the creation of one coordinated, centralized system of computerized information covering student aid, whether the sources be State, Federal or institutional, which is designed consistently to update data on a real time basis and which will bring about, among other things, the following improvements:

1) A thorough diagnosis of all current programs for purposes of simplification and consolidation;

2) A participative effort among Federal, State and private institutions in supplying, storing and revealing common data;

3) A centralized system of information with coordinated input of data from sources in both the public and private sector, eliminating any highly undesirable aspects of a giant "Big Brother" computer in Washington;

4) A shift of focus to directive, rather than responsive, actions in all student aid programs;

5) Achievement of tighter control over student aid recipients, involving less reliance upon complicated manual procedures and more upon effective monitoring;

6) Equitable funding and distribution of aid.

II. The Council further recommends that the proposed data system, providing equitable distribution of Federal and State student aid funds, with concomitant economy to the U.S. Treasury, be placed upon operational control of a quasi-public body similar to Fannie Mae or Sallie Mae and be independent of any of its three components. Such arrangement will also work to protect students' rights of privacy.

III. The Council recommends that a small but reasonable part of all Federal funds provided for postsecondary student aid be specifically labelled for general dissemination of information about student aid and that the institutions utilize this help in the most efficient informational programs available.

IV. The Council recommends that the U.S. Office of Education cause to be distributed a comprehensive information pamphlet to all 8th and 9th graders in our secondary school system. The pamphlet should explain each major aid program and include descriptions of eligibility as well as dates and addresses for application forms. The pamphlet should contain special information for potential science and engineering students, who must begin their math/science sequence early in high school.

V. The Council recommends that means be established by each major scholarship service and by the Federal Government (in those programs operated directly) for written advice to parents stating specifically the amount expected from them during the school year.

VI. The Council recommends that the Congress permit transfer of 25% of funds among the three major college-based programs (College Work-Study, Supplemental Educational Opportunity Grants and National Direct Student Loans), at the option of the institutional financial aid officer, to provide for better utilization of such funds and to compensate for changes in funding of individual institutions through the operations of the panel review process, as well as uncertainties of enrollment.

VII. The Council recommends that any portion of Work-Study earnings constituting overaward (that amount of wages for work performed exceeding need previously computed by a responsible financial aid officer) be treated by Congress as an addition to that student's savings for the next ensuing academic period. In no way should this recommendation be interpreted to mean intentional reduction in the student's normal obligation to work during the next non-academic period to assist in his/her own self-support.

VIII. The Council recommends that a standardized training program for financial aid administrators be developed immediately

by the National Association of Student Financial Aid Administrators jointly with the National Association of College and University Business Officers in consultation with the U.S. Office of Education. Such training shall include broad foundations of legislative history and intent, descriptions of acceptable and efficient practices, and adherence to a code demanding administration of the highest level. The Council recommends, concomitant with the above, full funding of the training authorized under section 493–C of the Education Amendments of 1976.

IX. The Council recommends that the U.S. Office of Education, to fully utilize the training programs, proceed without further delay to set up a schedule of frequent and reasonable program reviews to be carried out by qualified Office of Education personnel.

X. The Council recommends that the U.S. Commissioner of Education require certification of individual financial aid administrators, effective at earliest possible date, suggested to be September 1, 1978. Certification procedure should be the responsibility of national and state professional student aid organizations presently recognized by the U.S. Office of Education and at no time should such certification procedure be regulated by, or subject to directives from, the U.S. Office of Education or a state government agency.

XI. The Council deplores the lack of adequate staffing in key student aid positions within the Office of Education. The Council feels the addition of adequate personnel is of first priority in the new administration. New personnel will provide substantial help in the issuance of regulations, in eliminating contradictions of policy from various Federal regional officers and the Office of General Counsel, in remedying the lack of periodic program reviews by regional staff and the need for program information on the part of the American public.

XII. The Council recommends that a pilot program be established whereby a single state agency be named as administrator of all Federal and State Student Financial Aid Programs within that state and wherein said agency would assume all reasonable responsibility for program operation and reporting. A pilot program of this kind would indicate whether or not further integration of the whole delivery system is practical.

XIII. The Council recommends that present law be activated and that institutions holding National Direct Student Loan notes in default for two years turn such paper over to the U.S. Commissioner of Education for further efforts. The Office of Education has not set up any procedure for this.

XIV. The Council recommends that the U.S. Office of Education make a decision, long overdue, on the definition of an independent student and apply this definition across the board to all Federal student aid programs sponsored by that office. It is hoped that this definition would then be adopted by states administering their own aid programs.

XV. The Council repeats it recommendation that the campus-based programs be funded to amounts authorized, in a major effort to preserve the private institutions of the nation.

## RECOMMENDATIONS FOR GUARANTEED STUDENT LOANS–1977

XVI. The Council recommends that considerable simplification of the Guaranteed Student Loan Program be accomplished by:

1) Adoption of a common loan application incorporating all necessary features of the present documents (sometimes as many as eight in number) which must be signed by students, schools and parents before there is disbursement;

2) Issuance of a firm insurance commitment, so that lenders can depend upon the guarantee status once such commitment is

made, barring lender fraud or misrepresentation. Present regulations governing the Guaranteed Loan Program allow changes which ultimately may prejudice the guarantee status;

3) Requiring that all lenders utilize procedures generally practiced by commercial lenders for comparable amounts of uninsured loans;

4) Recognition that mandatory state guarantee agencies do not, by themselves, provide more loan assistance to students and that sliding reinsurance rates may severely restrict loans in some areas;

5) Mandating that state agencies be required to serve as central information posts for administrative assistance with Guaranteed Student Loans;

6) Change of regulations covering graduate and professional students, in view of the increase in total loan guarantee from $10,000 to $15,000 and providing that husband and wife may consolidate their loans, so that the repayment period is extended to reflect reasonable repayment and to safeguard against balloon payments at the end;

7) Review of the evidence that many delays in the delivery system arise from computerized systems now in operation. Caution is urged in experimenting with additional untried systems.

XVII. The Council recommends that eligible lenders be relieved of the necessity of furnishing disclosure statements to borrowers.

XVIII. The Council recommends that long-term success of the Guaranteed Student Loan program and expansion of the lending base can best be served by assurance of a 1% minimum and 5% maximum special allowance.

XIX. The Council recommends that student borrowers be obligated to apply and demonstrate the benefits derived from the education made possible by the loan over the reasonable period of five years after completion of studies before there is any eligibility for bankruptcy, excepting cases of severe hardship (hospitalization or physical disability), in conformity with the Education Amendments of 1976. This five year moratorium should apply to NDSL as well as GSL.

XX. The Council recommends that Congress revise the legislation governing the Student Loan Marketing Association to include clear authority for that agency to buy or otherwise assume all major student loan paper and to consolidate it, when necessary, to provide the individual borrower with a single repayment schedule and a single rate.

XXI. If student debt consolidation cannot be achieved by means of restructuring the authorization for the Student Loan Marketing Association, the Council recommends that amendments should be added to legislation governing National Direct Student Loans and Guaranteed Student Loans to permit repayments under the National Direct Student Loan program to revert to the lending institution as seed money for a new Guaranteed Loan program operated by the lending institution. This would permit such institution to receive interest on new loans and to discount or sell its paper to the Student Loan Marketing Association, thus providing additional institutional liquidity and considerably more student loan potential.

## PROGRESS IN 1976-77

Fiscal responsibility has remained a serious concern behind every recommendation of the Council in its attempts to treat with reason those tremendous demands made upon the nation today for postsecondary education of numbers without precedent. Acute dislocations, brought into the path of quick expansion of the higher education facilities in the 1960's, concurrent with the rush for more training of every description, strain the framework of our institutional community. No-

where does there seem to be adequate funding to support the national ideal excepting the Federal arm.

### Training of Financial Aid Administrators

The Council has always taken the position that the National Association of Student Financial Aid Administrators should be given strong encouragement to bring about a completely professional group of practitioners. Progress to date has been disappointing. The turnover rate among the group continues to reach about 33% annually and the situation is no longer amenable to half-measures.[1]

In a recent article about a related area, it appears that high school counselors, responsible for college guidance and information about financial aid, receive virtually no formal training at all in this field. Among the 200 colleges now teaching student counseling as a formal discipline, little or no attention is paid to either student financial aid legislation or to the practice thereof.[2] While it is clear, of course, that high school counseling and college financial aid administration are vastly different matters, the lack of formal training all along the way is striking. A spokesman for the American Council on Education has called publicly for U.S. Office of Education training of student financial aid officers and, at a meeting of the College Entrance Examination Board in New Orleans in February, 1976, was quoted as saying that the postsecondary educational community itself "must work harder to identify, articulate and maintain the highest standards of professional conduct and competence."[3]

The Council will have more to say about training in the report which follows,[4] but it would like to reiterate here that suitable training programs cannot be developed without first carrying out a recommended study of the "state of the art" as it exists today.[5] Section 493C of the 1976 Amendment specifies a training program for both State and institutional financial aid officers which will be, if funded, only the first step in the necessary process. Aware that there is already a large corpus of materials available, the Council wishes to emphasize the national need for action immediately.

### Simplified Aid Application

Both the *First* and *Second Annual Reports* called attention to the obvious need for simplification and systemmatization of the application procedures which students face when applying for financial assistance. The *Second Report* specifically urged the U.S. Office of Education to adopt the common data form drawn up by the Keppel Task Force, provided current field tests of this document prove satisfactory. The major problem has been Office of Education's insistence, in the BEOG program, that a separate application is necessary for this program alone. Recent evidence that the Office of Education is willing to compromise is welcome, but much remains to be done both to streamline the form itself and to synchronize the calendar of events which fall between initial filing of applications and final award.

### Sprains and Fractures

Enormous expansion in funding of student aid by both State and Federal largess has led to structural fractures within the aid administration community itself. For example, the Council is aware of polarities between State and institutional administrators although these are minimal at present. Within the Office of Education there has been a dichotomy in administration due to lodging the Guaranteed Student Loan program in one Commissioner's office and keeping the other major student aid programs in another Commissioner's office. Noting this in the past, the Advisory Council pointed out the need of close coordination and communication between the two, but genuine solution may be achieved at last under the new HEW Secretary's reorganization of early 1977, wherein the two are brought under a single, appropriate head.

### Regulations and Guidelines

Repeatedly, the Advisory Council has called for prompt issue of program regulations. Indeed, lack of these simple administrative tools has been one

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[1] See especially pp. 20-24, *Second Annual Report,* Advisory Council on Financial Aid to Students, June 24, 1976.

[2] Financial Aid Training for High School Counselors, *Journal of Student Financial Aid,* NASFAA, Nov. 1976, vol. 6, no. 3.

[3] "Regulating the Regulators", by Charles Saunders, Jr., *The Chronicle of Higher Education,* March 22, 1976, vol. XII, no. 4, p. 32.

[4] See Training and Certification of Financial Aid Officer, under Recommendations.

[5] See pp. 23 and 24, *Second Annual Report,* Advisory Council on Financial Aid to Students, June 24, 1976.

of the glaring weaknesses of the Federal administrative procedure. Recommendation 18 of the *Second Annual Report* called attention to the need for more flexibility during the process of regulation-writing, including well-informed public participation by experts. Finally, in 1976, HEW Department officials made an issue of broad public participation, and the Congress has mandated completion dates for the issue of regulations by Office of Education.

Once regulations are issued, explanative instructions in the form of manuals and guidelines are virtually a necessity, particularly for the newcomers. A proposal to the U.S. Office of Education made jointly by the National Association of Student Financial Aid Administrators (NASFAA) and the National Association of College and University Business Officers (NACUBO) would commission these two organizations to write and publish manuals for all major Office of Education aid programs, as well as booklets describing in detail those broad administrative principles found to be efficient in the operation of these programs. The American Council on Education has endorsed the proposal, but it remains to be seen whether or not the Office of Education will continue to tackle this task alone as it has in the past.

### Academic Good Standing

Efficient financial aid program management must define, among other things, those students to whom aid may be given in the first place. Once the student is enrolled, then a thorny problem follows in defining under what conditions there will be renewals of grants and loans during the balance of the postsecondary career. The *Second Annual Report's* second recommendation in 1976 spelled out a definition of academic "good standing", on the basis of which colleges could renew the student aid package from one academic period to the next. The Council chose to emphasize this recommendation in light of vigorous discussion of fraud and abuse within the academic community, the chronic shortage of Federal funds to assist students, and the Council's own previous statments regarding academic merit and student aid.[6] However, institutions have resisted, understandably, giving way on their own definitions of student advancement and, accordingly, have defeated any standardized definition of academic "good standing" in the 1976 Amendments. It is left to the institutions alone.

### A Second College Work-Study Program

Reference was made in the Introduction to the Council's previous recommendation of a State-controlled College Work-Study program.[7] For a long time the Council has been persuaded that student work best embodies the concept of self-help implicit in the philosophy of student aid held by both the Congress and most American people. Criticism of the present College Work-Study program, though seldom heard, usually centers on alleged interference of term-time work with academic study. The Council has not found much substance in this criticism and, in fact, has seen evidence that work during term-time not only may provide opportunities unavailable in other ways but does not appear to have an adverse effect on grade-point averages.

To date, there has been no progress in the creation of a State-operated Work-Study program parallel and supplemental to the existing institutionally-controlled, federally-financed program.[8]

### Fraud—Verification of Aid Data

Fraud and abuse in the management of the student aid programs has been subject to much investigation lately and more investigation seems certain to come in the future. One problem connected with all this is the degree of reliability in family financial data provided on standard aid application forms. While some institutional aid officers routinely verify these data, most are able to give them only passing attention, relying on innate honesty or spot checks. Last year, the Council recommended that State and institutional financial aid officers require a copy of the latest available Federal income tax return as part of the regular submission for aid. This appears both necessary and logical since, in the first place, there seems to be no legal objection to an agreement on the application itself, signed by parent(s) or student (when applying as an "independent" applicant), giving the financial aid officer permission to verify all data with Form 1040. Secondly, there does not seem to be objection to requiring an applicant, or applicant's parents, to send a copy of the latest Form 1040 with the aid application.

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[6] See pp. 10-11 of *First Annual Report*, Advisory Council on Financial Aid to Students, March 21, 1975.

[7] See "Role of the States" pp. 16-20, *Second Annual Report*, Advisory Council on Financial Aid to Students, June 24, 1976.

[8] 80% Federal money, 20% matching money by the institution.

However, evidence has persuaded the Advisory Council that there is strong resistance to a direct requirement by Office of Education for either procedure. Since efficient custody of Federal funds is involved, this matter should be considered further.[9]

### NDSL and SEOG—The Threatened Programs

There are many differences between institutions and between students themselves. The Council has continued to support both Supplemental Educational Opportunity Grants and National Direct Student Loans, since these two programs provide a very substantial tool for molding aid packages to the needs of the student and the philosophy of the institution. The usual reasons given to abolish these two programs have never convinced the Council that the very flexibility they provide should be sacrificed in the name of administrative simplification. The Council strongly supports continuation, but notes that the latest budget presented to the Congress does not include provision for further capital contributions for NDSL.

### Guaranteed Student Loan Program

Significant parts of both earlier reports were devoted to Guaranteed Student Loans. The Council has always been persuaded that the two types of guaranteed loans, Federally-insured Student Loans (FISL) and State guarantee agency loans, provide the broadest fiscally-viable latitude demanded by the nation's secular growth in student need. While the *First Annual Report* stressed a levelling-off in numbers of *traditional* students during the decade to come, it still appears certain that total enrollment will continue to grow, due to the extension of Federal aid programs to include part-time students, due to new emphasis on life-time learning (Title I-B of the 1976 Amendments) and due to the presence on campus of older students. Just as important, however, is the fact that inflation means ever-increasing demands for aid even if the student population remains stable. This was reflected in the *First Annual Report.*

Since the Guaranteed Student Loan program taps capital sources separate from the Federal treasury, GSL seems more desirable than direct appropriation. Further, additional liquidity to the whole system is provided by the Student Loan Marketing Association (Sallie Mae), acting as purchaser or warehouse agent for both institutional and State loan officers and thereby providing both with additional lending resources for student needs.[10]

More specifically, here is a list of the changes recently wrought in the program which were specified in the two previous Council Reports:

1) The grace period for repayment has been modified so payments can be accelerated at the option of the borrower;
2) Additional flexibility is provided in the negotiation of repayment schedules;
3) Equitable revision of the U.S. Commissioner of Education's share of default collections;
4) More effective processing of disability claims;
5) Fee income provided for training of administrators in the lending community;
6) Deferral of delinquent interest on unsubsidized loans until time of repayment;
7) Improved programmatic cooperation between the Office of Education and State and independent agencies;
8) Income limit raised to $25,000;
9) Raising State guarantee rates;
10) Sliding scale of Federal loan guarantee rates.

In addition to the above, the Council urged revision of our bankruptcy laws to preclude voluntary student bankruptcy for five years as a means of evasion.

In looking over the progress of the last two years, the Council is gratified that so much has been done. Much still remains, however, and that will be the substance of the *Third Annual Report,* which follows.

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[9] See "Goin' Through Changes," *The Journal of Student Financial Aid,* Feb. 1977, vol. 7, no. 1, pp. 25-33, for a new study disclosing that about 50% of the cases of family income reported to college admissions offices in several California colleges would be changed by aid officials if accompanied by Forms 1040. In this study alone, *the aid awarded to students would have been about three-quarters of a million dollars less* than that actually awarded.

[10] See report to the Council by Mr. Edward Fox, President of the Student Loan Marketing Association, Appendix A.

## REPORT AND RECOMMENDATIONS

In November, 1976, Dr. Eugene Marin of Arizona State University told the Council,

"Only those intimately involved in the legislative and administrative aspects of financial aid to students and those in the firing line at the institutional level can feel the true impact of services offered, or services denied, to students. But it is precisely because of these truths that we feel especially capable of assessing the residue of implications, and present our conclusions to our Congressional leadership and to the Administration. We do it with the hope that having been given the basic legislation necessary to implement a variety of programs of assistance to students in their postsecondary pursuits, now is the time to offer assistance from the vantage point of experience. It must fall upon the new Administration to revise and modify the existing structure of postsecondary aid to students and inject into it whatever efficacy is required for achieving the maximum effectiveness.

"As stated in the Carnegie Commission in 1974, every index referring to the outcome of a college education indicates that college-trained individuals are more tolerant, more participatory in civic and governmental affairs, have higher incomes, stay in better health, have fewer divorces, and a more positive attitude toward life than those who, in the main, have not had that advantage or privilege.

"As Stephen Bailey of the American Council on Education has said, as long as there are national needs that transcend the interests of individual States, the Federal government will be involved in direct categorical relationship to colleges and universities. As long as students need help, both our States and the Federal government will participate in supporting them through school. And as long as schooling and training successfully add to the pool of national talent which the legislation intended for the purpose, claims will be made upon the Federal government for assistance in supporting the endeavors of education.

"The agenda for the Congress and the Office of Education, therefore, continues."

# PART I

# SPECIAL RECOMMENDATIONS FOR IMMEDIATE ATTENTION

Full discussion of the Council's recommendations for 1977 follows, and a summary list of all recommendations will be found at the beginning of this Report. However, the Council has concluded that immediate attention should be given the following special concerns, all of which are included later in the body of the text:

1) CERTIFICATION AND TRAINING OF FINANCIAL AID ADMINISTRATORS;
2) MANAGEMENT SYSTEM FOR THE U.S. OFFICE OF EDUCATION;
3) CHANGES IN GUARANTEED LOANS TO ASSURE CONTINUING, STRONG PROGRAM;
4) SIMPLIFICATION OF STUDENT AID DELIVERY SYSTEM BY MEANS OF COMMON DATA FORM AND UNIFORM NEEDS ANALYSIS;
5) STRICT DEFINITIONS OF INDEPENDENT AND NON-TRADITIONAL STUDENTS AND ADHERENCE THERETO;
6) CONTINUATION OF THE FIVE-YEAR MORATORIUM ON VOLUNTARY STUDENT BANKRUPTCY;
7) VERIFICATION OF FAMILY INCOME DATA BY MEANS OF FORM 1040 OR EQUIVALENT;
8) STUDENT INFORMATION PACKAGE COVERING AID PROGRAMS AND PROCEDURES.

# PART II

# RECOMMENDATIONS FOR COLLEGE-BASED PROGRAMS FOR 1977 MANAGEMENT OF AID PROGRAMS BY U.S. OFFICE OF EDUCATION

The Council has concluded from evidence of three years that the U.S. Office of Education simply is not able, for a variety of reasons, to promulgate practices conducive to efficient program administration by institutional and State aid officers. The Office has not proved able efficiently to publish regulations, to apprise students of updated information, to develop comprehensive audit expectations for each program, to conduct frequent and appropriate program reviews (absolutely necessary to both institutional and Federal interests), to arrive at policy concerning institutional refunds, concerning non-traditional students and concerning regular fiscal reporting practices. As a result, the Council will address these shortfalls.

**Management Fundamentals**

Fundamental to any modern management system is a data base for efficient coordination and communication, for prompt collection and retrieval of information, for identification of programmatic impact, trends, and early warning of abuse. The fact that the Office of Education annually is responsible for billions of dollars of student aid funds certainly warrants expectation of realistically achievable common forms, reliable information flow, adequate staffing of offices and, perhaps most of all, control over the flow of dollars by means of precise audit and error-prevention techniques. *Not one of these has been realized.*

*The Council recommends the creation of one coordinated, centralized system of computerized information covering student aid, whether the sources be State, Federal or institutional, which is designed consistently to update data on a real time basis and which will bring about, among other things, the following improvements:*

*1) A thorough diagnosis of all current programs for purposes of simplification and consolidation;*

*2) A participative effort among Federal; State and private institutions in supplying, storing and revealing common data;*

*3) A centralized system of information with coordinated input of data from sources in both the public and private sector, eliminating any highly undesirable aspects of a giant "Big Brother" computer in Washington;*

*4) A shift of focus to directive, rather than responsive, actions in all student aid programs;*

*5) Achievement of tighter control over student aid recipients, involving less reliance upon complicated manual procedures and more upon effective monitoring;*

*6) Equitable funding and distribution of aid.*

More specifically, the Council believes it feasible that the "early warning" data base of the College Entrance Examination Board covering high school students seeking college entrance could be part of the data system. Further, College Scholarship Service and American College Testing (the two large commercial components in needs analysis and aid applications) would be asked to contribute input regarding expected family contributions, student identity and cumulative obligations. State and private loan guarantee agencies would be asked to provide input and update on defaults, collection data, vertification of student status, cumulative debt and to help with possibilities of loan consolidation.[11]

*The Council further recommends that the proposed data system, providing equitable distribution of Federal and State student aid funds, with concomitant economy to the U.S. Treasury, be placed under operational control of a quasi-public body similar to Fannie Mae or Sallie Mae and be independent of any of its three components. Such arrangement will also work to protect students' rights of privacy.*

Much has been said in the past twenty years concerning the need for more efficient program

[11] Further discussion of loan consolidation will be found in the Guaranteed Loan section of this Report.

management in the student aid field. It is past time to implement the necessary data management base.

### Structural Reorganization of U.S. Office of Education

Several working papers prepared by Council members specifically for this report have dealt with various phases of structural reogranization of the Office of Education. One of these, prepared by Dr. Roy Cogdell, dean of Governors State University, constitutes an ambitious effort to resolve the ambiguous lines of authority and communication which now prevail. That paper is presented in full as Appendix B and it deals with congressional relations, budget, fund allocation and administration, monitoring, audit recapture and other problems. It attempts to place each of these functions in clear relation to the other but within the broad administrative structure which has existed for so many years, i.e., central offices in Washington and ten regional offices, as well as ever-growing numbers of institutional and State offices, both public and private. Basically, Dr. Cogdell's plan would limit severely present direct lines from Washington central offices to the institutions and would establish, in their place, more authority in the regions and the State offices. The plan is presented here as a prototype for further consideration.

### Student Aid Program Information and Assistance

The current interest in consumer affairs, as it relates to student aid, is an imperative for institutions to provide much more information about their policies and aid programs than is currently given. In this connection, the Council has been interested for two years in student thinking about present financial aid policies and what recommendations students themselves might have. A Council study[12] made at the end of 1976 indicates that knowledgeable students, aware of steeply inflated college costs, see a "high tuition, high aid" strategy taking the place of the "low tuition" strategy of the 1960's. This leads to increased demand for student aid at a time when neither the Federal government nor State government will guarantee financial support for postsecondary education, and students look upon this allocation procedure as a device for rationing limited funds. Page 12 of the *National Task Force Report on Student Aid Problems*[13] concludes that need analysis "in the past has often been used as a device to ration the available student aid funds through artificial or arbitrary decisions about the amount of 'need' that the students and parents presented. What frequently passed for 'needs analysis' was really 'resource analysis.'" The Keppel Task Force finds this unacceptable in a system which attempts to provide access, choice and retention for students without sufficient resources of their own. The Advisory Council study concludes that many students in this environment feel that concepts such as "entitlement", "choice" and "equal opportunity" become little more than buzz words.

This lack of information about aid programs, eligibility requirements and deadlines mystifies the student and alienates him from the whole system. According to a College Scholarship Service study, "Information—or lack of it—was the single most frequently expressed problem."[14]

*The Council recommends that a small but reasonable part of all Federal funds provided for postsecondary student aid be specifically labelled for general dissemination of information about student aid and that the institutions utilize this help in the most efficient informational programs available.*

The Council will have more to say about this in "Training of Student Financial Aid Officers" below, but another aspect of the problem tends to compound the inadequacy of the present system, and it relates to students still in high school. A report issued for the National Advisory Council on Minorities in Engineering shows clearly that student estimates of the chances for financial aid in college very definitely affect plans early in the high school career and the curriculum followed there.

*The Council recommends that the U.S. Office of Education cause to be distributed a comprehensive information pamphlet to all 8th and 9th graders in our secondary school system. The pamphlet should explain each major aid program and include descriptions of eligibility as well as dates and addresses for application forms. The pamphlet should contain special information for potential science*

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[12] "Student Attitudes", unpublished paper by Thomas C. Naylor, member of the Council.

[13] Usually referred to as the "Keppel Task Force Report."

[14] "What 250 students say about financial aid problems", CSS Student Advisory Committee of the College Entrance Examination Board, *College Board Review* no. 100, Summer 1976.

*and engineering students, who must begin their math/science sequence early in high school.*

The Council is aware of current publications in this field, but none serves adequately the purposes designated above.

Another problem relating to information for students arises when the institution making the award prepares its aid package. Some colleges make special efforts to acquaint parents with their expected contribution toward expenses, as determined by the college, but this practice is by no means universal. Parental complaint is common.

*The Council recommends that means be established by each major scholarship service and by the Federal Government (in those programs operated directly) for written advice to parents stating specifically the amount expected from them during the school year.*

**Transferability of Funds in the Federal Programs**

Funds for each of the major Federal programs are appropriated as line items in the budget and pass through many hands before reaching the student. One of the important intermediaries in the college-based programs is the institution itself, which is subject to all the uncertainties of enrollment change, drop-outs, stop-outs and so on, frequently resulting in shortages of funds for one type of aid (loan, work or grant) over another.

Presently, funds for each program are accounted for separately and periodic program reviews, when conducted by Office of Education regional staff, are designed to ensure that the institutional aid officer has utilized his funds with due regard for proper stewardship.

*The Council recommends that the Congress permit transfer of 25% of funds among the three major college-based programs (college work-study, supplemental educational opportunity grants and national direct student loans), at the option of the institutional financial aid officer, to provide for better utilization of such funds and to compensate for changes in funding of individual institutions through the operations of the panel review process, as well as uncertainties of enrollment.*

There is already some transferability between two of the programs, but the Council moves the above in the interests of better service to students and for better expression of institutional philosophy regarding the role of student aid on the whole postsecondary experience.

**Overawards of Financial Aid**

As long as the campus-based aid programs have been in operation, they have been plagued with a complicated and recurring problem relating to "overaward." A financial aid package, put together by the aid officer during the summer preceeding the academic year involved, obviously represents a best estimate of needs to be met. When the package includes College Work-Study, it is entirely possible for the student to find later on that the allotted quota has been earned well prior to the end of the term, yet both student and employer (frequently the institution itself) wish the student to continue. If the student does continue, and if he is paid in Federal funds there is a very real possibility of audit, involving restitution of all Federal monies involved in overpayment. Strict equity demands no overawards, but the logic demands some leniency and Congress has approved some overawards in its latest legislation.

*The Council recommends that any portion of work-study earnings constituting overaward (that amount of wages for work performed exceeding need previously computed by a responsible financial aid officer) be treated by Congress as an addition to that student's savings for the next ensuing academic period. In no way should this recommendation be interpreted to mean intentional reduction in the student's normal obligation to work during the next non-academic period to assist in his/her own self-support.*

**Training and Certification of Student Financial Aid Officers**[15]

One of the thorniest problems in Office of Education management relates to its dual responsibility for stewardship of taxpayers' money, on one hand, and for preservation of institutional autonomy, on the other. Accountability for Federal funds concomitant with assurances of equitable

[15] The term "certification" is used here to mean approval by a relevant professional organization, after proof of compliance with, and full knowledge of, established professional criteria for the performance of duties reasonably associated with the job of student aid administration. Specifically, the term does *not* mean "licensure" or approval by a State or Federal licensing body.

distribution of assistance are matters of grave and general concern. The Council has studied these matters over the past three years with an eye to history.

Prior to 1958, the year in which the National Direct Student Loan program was enacted, distribution of student aid by colleges was a relatively simple matter. With enactment of the Educational Opportunity Act of 1965, the Amendments of 1972, 1974 and 1976, however, the problems have increased enormously and, at the same time, State governments have begun substantial aid programs of their own. The demand for more sophisticated aid officers has far surpassed the supply of experienced practitioners willing to stay in the field for more than a year or two.

It is estimated that in 1974 there were about 10,000 "professional" staff people handling State, local and Federal student assistance funds, but only a few of these had access to organized instruction defining their responsibilities and functions. Indeed, in the matter of training, there have been only sporadic and uncoordinated efforts to produce a truly professional group, nor is there an established source of supply of student aid officers, in the sense of graduates of planned high school curricula or baccalaureate. Student aid salaries rank almost at the bottom of the ladder on college campuses, resulting in a turnover rate of about 33% annually. When it is recalled that about four billion dollars of Federal funds and five hundred million dollars of State funds flow annually through these channels, the situation appears unconscionable.

The National Task Force on Student Aid Problems reviewed the training efforts of both the College Scholarship Service and American College Testing, as well as the efforts of the U.S. Office of Education under the Education Professions Development Act and under the Basic Education Opportunity Grant program, and concludes that none of these gives assurance of continuing, sophisticated instruction of student aid administrators on the national level.[16]

A few years ago the National Association of Student Financial Aid Administrators created a subcommittee on certification, but this no longer exists.[17] Some States have stepped into the gap with their own training and certification programs and more States are currently considering quality controls. The States now engaged in structured training procedures are Texas, Colorado, North Carolina, South Carolina and Arizona.

The problem appears to be not so much whether or not adequately certified aid officers are needed, but rather a question of what group will do the certifying. Since this specifically falls within the mandates of the Charter provided for the Advisory Council, a questionaire was sent to all State presidents of the national student aid administrators organization.[18] Replies clustered heavily about the need for adequate and extensive, updated training, and the most surprising result was the fact that 23 of the respondents advocated some kind of certification procedure.[19]

*The Council recommends that a standardized training program for financial aid administrators be developed immediately by the National Association of Student Financial Aid Administrators jointly with the National Association of College and University Business Officers in consultation with the U.S. Office of Education. Such training shall include broad foundations of legislative history and intent, descriptions of acceptable and efficient practices, and adherence to a code demanding administration of the highest level. The Council recommends, concomitant with the above, full funding of the training authorized under Section 493-C of the Education Amendments of 1976.*

It is agreed generally that even were the training program to start immediately, at least two years will be required to complete the program with due attention to the legal responsibilities of all parties involved.

*The Council recommends that the U.S. Office of Education, to fully utilize the training programs, proceed without further delay to set up a schedule of frequent and reasonable program reviews to be carried out by qualified Office of Education personnel.*

Assuming implementation of these three recommendations, it is entirely possible that a responsible certification procedure could be in place by 1980, with all the advantages of efficiency of

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[16] *Final Report*, National Task Force on Student Aid Problems, pp. 78-84.

[17] See Appendix C for National Association of Student Financial Aid Administrators' tentative criteria for certification.

[18] Poll conducted by Mrs. Priscilla Light, Director Career Education Center, Randolph-Macon Woman's College, December 1976.

[19] See Appendix D for text of questions and results.

operation and economy to the taxpayers.[20] This should be helpful, also, in the current problems of fraud and abuse.

*The Council recommends that the U.S. Commissioner of Education require certification of individual Financial Aid Administrators, effective at earliest possible date, suggested to be September 1, 1978. Certification procedure should be the responsibility of national and State professional student aid organizations presently recognized by the U.S. Office of Education and at no time should such certification procedure be regulated by, or subject to directives from The U.S. Office of Education or a State Government Agency.*

### Good Standing (Academic)

Germane to certain problems of efficient program administration is a definition of "good academic standing" as it relates to students who fail to move ahead annually toward acceptable academic goals. The question constantly arises as to what extent Federal funds are being used by institutions to support "professional students" or those not making real progress to the next level. Since quantitative data presently are virtually impossible to obtain,[21] there is no estimate of the amount of funds "lost" in this manner, but the Council continues to believe it is a very serious problem which, in the short-run, must be faced through special emphasis in the training and certification procedures stressed earlier. It illustrates again the need for a thoroughly reliable national informational system.

### Office of Education Staffing

The Council addressed the problem of Office of Education staffing in its First and Second Annual Reports, but it remains serious enough to require emphasis once more. Council Chairman Dr. John DeMarcus undertook this year his own study of the effectiveness of the Office of Education and concluded (with frank concurrence by some Federal officials involved) that there is not only a deplorable lack of modern technology, but a scarcity of trained personnel to sustain a suitable administrative system. It is clear that, whether or not there will be a reorganization of the Office of Education, immediate steps must be taken to improve the *services* which the Office of Education should be providing. The section on Training and Certification of Student Financial Aid Officers refers to the need for more program reviews, and this will involve either an increase of regional staff or extension of a system already on trial, whereby experienced financial aid officers from college campuses are hired part-time by Office of Education. It has been estimated that all campus programs in the nation could be reviewed by 150 such individual institutional aid officers on contract, working with Office of Education regional people. In addition, however:

a. Institutions currently have a serious need for technical assistance (other than reviews) from the regional officers, and these services simply are not available;

b. Financial aid officers in the field have an immediate need for formal training and Office of Education staff could perform this service;

c. Loan defaults need to be followed up quickly and efficiently;

d. Disparities between Panel Review recommendations (for sums to be allocated to participating institutions by the Federal government) and the final allocations actually received are such that all participants in the process need more communication and sharing of information during the critical period following institutional application;

e. Expeditious issue of rules and regulations is a problem.

*The Council deplores the lack of adequate staffing in key student aid positions within the Office of Education. The Council feels the addition of adequate personnel is of first priority in the new administration. New personnel will provide substantial help in the issuance of regulations, in eliminating contradictions of policy from various Federal Regional Officers and the Office of General Counsel, in remedying the lack of periodic program reviews by regional staff and the need for program information on the part of the American public.*[22]

### Role of the States

What role should the States have in a national system of student financial aid? Some advocate a

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[20] See Appendix E for implementation detail.

[21] See "Management Fundamentals" above.

[22] As an example, the New York Regional Office of the U.S. Office of Education is responsible for aid programs in the States of New York, New Jersey, Pennsylvania, Puerto Rico and Virgin Islands. Federal aid, as of this writing, amounts to about $622,000,000. There is one program officer to cover it all.

much stronger role than they now have, based upon the historical proposition that it is the States which have prime responsibilities for education and that local authority derives from the States by statute. The Education Amendments of 1976 augment the parts played by States, by 1) establishing Education Information Centers, financed by State funds (one-third) and Federal funds (two-thirds); 2) encouraging States to set up guarantee agencies for student loans, if they have not already done so; 3) further cooperation in community services and continuing education. In addition, there is a provision for State processing of Basic Educational Opportunity Grant applications (currently done entirely in one Federally-sponsored contract) and for State participation in a training program for student aid officers. The Council believes additional mutual experience, shared by Federal and State officers, would be beneficial for future planning.

*The Council recommends that a pilot program be established whereby a single State agency be named as administrator of all Federal and State student financial aid programs within that State and wherein said agency would assume all reasonable responsibility for program operation and reporting. A pilot program of this kind would indicate whether or not further integration of the whole delivery system is practical.*

**National Direct Student Loan Notes**

Present law provides for the assignment of National Direct Student Loan notes in default for two years to the U.S. Commissioner of Education. This is not being done generally.

*The Council recommends that present law be activated and that institutions holding national direct student loan notes in default for two years turn such paper over to the U.S. Commissioner of Education for further efforts. The Office of Education has not set up any procedure for this.*

**The Independent and Non-Traditional Student**

Readers of this report may be familiar with the material already on record concerning independent and non-traditional students. An "independent student" is usually described as being of college-age and having no significant financial support from parents or relatives to attend postsecondary schools. The "non-traditional student" is usually referred to as that student, independent or not, who is older and perhaps part-time, a group including women whose family responsibilities have finally permitted a few courses at the local community college and others returning to the campus after prolonged separation. Full descriptions may be had from the extensive bibliography on this subject.

It was from the ranks of the non-traditional students that such programs as Upward Bound, Talent Search and Special Services (the so-called Trio Programs) discovered competencies from the ghettos and barrios which could be developed at the collegiate level. In addition, large numbers of veterans were returning to school, with other groups of adults who had interrupted their educational careers years before. Those assisted by the Bureau of Indian Affairs showed increased interest in postsecondary education, and disabled students, hitherto shy about a traditional campus, added to the numbers of enrollees competing with traditional students for financial assistance. To quote a University of Maryland official, "The term 'non-traditional,' which only a few years ago applied to minority and low-income students, is now being applied instead to a new clientele for higher education: the older student, returning to college after a break of some time, or attending college for the first time, often a part-time student, often with family responsibilities, sometimes a solo parent, sometimes a displaced homemaker, often working full-time. Our older population, which initially was made up of veterans and some older women whose children had grown up and for whom education was quasi-recreational, now is expanding into people for whom education is a new venture, who study to get a job, to upgrade their skills, for reasons no less serious than those of the 18-year-old.

"This new student somehow bumps into all the corners, and the rules, and the assumptions of our institutions. Our application forms do not make any sense for him. Our questions about dependency seem silly. Our focus on the full-time student leaves him out of things. Our emphasis on day-time classes makes life difficult for him. He is our new clientele, but our institutions are not designed to let him fit comfortably, let alone meet his needs."[23]

[23] Dr. Judith Sorum, Dean of Undergraduate Affairs, University of Maryland, December, 1976.

Present legislation already provides for student aid to needy part-time students in most of the major programs, but critics maintain nevertheless that the non-traditional student is subject to a number of "hidden assumptions" about need and aid. Again quoting Dean Scrum, "We assume that the full-time student is more worthy of our support than the part-time student. We assume that the younger student is financially more needy than the older student. We assume that the older learner is 'just here for the fun of it,' and we need to question these assumptions as we evaluate the 'fit' between needs of the new students and those of the existing student financial aid structure. We need to ask what our social goals are in relation to these older learners. And most of all, we need to realize that by our current policies we may well be having an impact that we do not wish to have."

The numbers of independent and non-traditional students have grown immensely in recent years. In the BEOG program alone, the proportion of independent students has increased steadily each academic year from 13.3% of all eligible students during 1973-4 to nearly 30% in 1975-6. This extrapolates to 40% in the near future and poses two very fundamental questions about our assumptions behind student aid, i.e., the responsibility of parents for their children's education and what gamesmanship, if any, is involved in weighing income tax deductions against Federal student aid.

*The Council recommends that the U.S. Office of Education make a decision, long overdue, on the definition of an independent student and apply this definition across the board to all Federal student aid programs sponsored by that office. It is hoped that this definition would then be adopted by States administering their own aid programs.*

**Choice and Flexibility in Aid Programs**

The two loan programs (NDSL and GSL), together with Supplemental Educational Opportunity Grants and College Work-Study, provide financial aid administrators with the tools necessary to enlarge an aid package for a student who opts to attend a more expensive college. It is very difficult to determine quantitatively the extent of "choice" (of colleges) under existing student aid arrangements, but some hints are given in a study by The National Commission on the Financing of Postsecondary Education, using Department of the Census data, wherein it appears that the vastly differing cost structures of our colleges do not present insurmountable barriers to students from families earning less than ten thousand dollars annually.[24] Since Supplemental Educational Opportunity Grants may be added by the financial aid officer to Basic Grants (or other aid) up to fifteen hundred dollars annually (maximum four thousand dollars SEOG over four years), there is latitude for the student to opt for a more expensive college or go out-of-State.

This has obvious relevance to the financial health of our small, private colleges. The Council continues to believe that attention to students, and the willingness to carry on modest research by small colleges could be lost to the nation if students do not enjoy some measure of choice. While it is reasonable to assume that Basic Educational Opportunity Grants, when "fully-funded", has assisted measurably the lower-cost public institutions, there are few who argue that BEOG alone provides much help for high-cost private colleges. In fact, it may be entirely possible that BEOG enables the lower-cost public universities to transfer from their own aid programs funds to assist middle-income students not eligible for BEOG in the first place.[25]

*The Council repeats its recommendation that the campus-based programs be funded to amounts authorized, in a major effort to preserve the private institutions of the nation.*[26]

**Income Tax Credits**

Middle-income groups facing the problem of choice usually must consider an educational loan. During the recent presidential campaign, both candidates discussed tax credits for educational expense, pursuant to various proposals in the Congress for years. The Ribicoff Amendment of 1976 would have provided up to three hundred twenty five dollars credit for each college student,

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[24] *Financing Postsecondary Education in the United States*, The National Commission on the Financing of Postsecondary Education, Table 4-11, p. 153, December, 1973.

[25] J. Samuel Jones, Director Financial Aid at Massachusetts Institute of Technology, "The public universities with low tuition are in much better shape than they were four years ago. . .Basic Opportunity Grants are really meeting their costs. But the 'privates' are not better off." *The Chronicle of Higher Education*, October 25, 1976.

[26] See Appendix F for bibliography on financial problems of the small, private colleges.

computed on the basis of 100% for the first two hundred dollars of qualifying expenditure for tuition, fees and books, 25% for the next three hundred dollars, 5% for the subsequent one thousand dollars, with no tax credit for expenses beyond fifteen hundred dollars. The tax credit would have begun to phase out when taxpayer's gross adjusted annual income passed fifteen thousand dollars, with no credit allowed on adjusted income above thirty one thousand, two hundred and fifty dollars.

Advantages of tax credits lie in their availability to middle income groups, the speed with which they can be implemented and the low cost of administration. Major disadvantages are loss of revenue, and the charge of "abuse" of our tax system as a revenue device.

The Council has considered at length the idea of tax credits for costs of postsecondary education and recommends that it be taken up again by the Congress, as it possesses considerable merit; however, the Council would resist passage of tax credit legislation should it affect unfavorably the funding of existing student aid programs.

### Professional Schools

Professional schools are part of the problem of choice, but not in the same sense used above and hence are considered separately. There is genuine underutilization of our PhD's in the marketplace, but there is also need for sensitivity to the whole structure of education, lest some segments now disregarded be essential to the technological and scientific competition in world affairs. The Council commends to the attention of the Congress the needs of professional school students, necessary to the national well-being in matters of health and science, such needs being part of the totally-coordinated student aid program.

# PART III

# RECOMMENDATIONS FOR GUARANTEED STUDENT LOANS—1977

In recent years, the Guaranteed Student Loan program has shown clearly that, even in years of extremely tight money, the nation's bankers have been extending loan money to students who, otherwise, would probably never have received such assistance. This has proved to be the case even though student loans were being made at yields unfavorable by comparison to other bank paper, and even though the paper work and costs of administration were large, complex and subject to unsettling changes in rules and regulations in Washington. It should be noted, too, that Guaranteed Student Loans have added immeasurably to student choice for low income students, since about 75% of the loans are extended to students with family adjusted gross incomes below $10,000.

Extrapolation of the curves of postsecondary attendance into the next decade indicates annual increments of students and generally increasing college costs. The Guaranteed Loan program seems to be the only major effort which can manage to keep pace with expanding national goals of education opportunity, *provided* it can expand its own lending base. The base includes all major lending institutions of the country which may be considered as potential resources for student loans:

15,000 commercial banks;
5,000 savings and loan institutions;
600 mutual savings banks;
23,000 credit unions, with membership of 23 millions;
insurance companies;
pension plans.

Figures of the American Bankers Association show lender participation in the Guaranteed Loan program as follows:

**Table I**
**Total Lenders in the GSL Program as of June, 1972**

| Institution | Number of Lenders | % of Lenders | % of Loans |
|---|---|---|---|
| Commercial Banks | 14,147 | 73.9% | 69.4% |
| Mutual Savings Banks | 447 | 2.3 | 8.7 |
| Savings and Loan | 1,665 | 8.7 | 7.1 |
| Credit Unions | 2,592 | 13.5 | 3.0 |
| Direct Loan program | 2 | | 5.9 |
| Other | 314 | 1.6 | 5.9 |
| **Total** | 19,167 | 100.0% | 100.0% |

Figures for 1974 (two years later) show that there was a decrease in participation by commercial banks (from 73.9% to 65.3%), and a decrease by Savings and Loan Associations (from 2.3% to 1.6%), but a significant increase in participation by vocational school lenders. The latter, however, will cease being lenders under the Education Amendments of 1976. In all, the number of loans, as well as the number of lending institutions, declined by almost 25% between 1972 and 1975, with clear indications that education loans are increasingly hard to find.

Broader lender participation should be a matter of prime concern for the Office of Education. Some specialists feel that the larger lending institutions, which have a separate department for student loans with personnel specializing in that field, may have reached a saturation point under current rates. In fact, most of the larger institutions with which the Council has been in touch indicated that, barring unforseen developments, they will maintain their present position in the market but will not actively engage in enlarging it. However, it is the smaller banks which are not participating in the program at all or are dropping out of the program, and these are the main source of future participation. In addition, the credit unions—all 23,000 of them—as well as 5,000 commercial banks and 3000 savings and loan institutions are not now in the program and represent to the Council tremendous potential, if utilized properly. These have already established close relationships with their customers. The way to lure them into the program could be reduction of paperwork and maintenance of yield.

*The Council recommends that considerable simplification of the guaranteed student loan program be accomplished by:*

*1) Adoption of a common loan application incorporating all necessary features of the present documents (sometimes as many as eight in number) which must be signed by students, schools and parents before there is disbursement;*

*2) Issuance of a firm insurance commitment, so that lenders can depend upon the guarantee status once such commitment is made, barring lender fraud or misrepresentation. Present regulations governing the guaranteed loan program allow changes which ultimately may prejudice the guarantee status;*

*3) Requiring that all lenders utilize procedures generally practiced by commercial lenders for comparable amounts of uninsured loans;*

*4) Recognition that mandatory state guarantee agencies do not, by themselves, provide more loan assistance to students and that sliding reinsurance rates may severely restrict loans in some areas;*

*5) Mandating that State agencies be required to serve as central information posts for administrative assistance with guaranteed student loans;*

*6) Change of regulations covering graduate and professional students, in view of the increase in total loan guarantee from $10,000 to $15,000 and providing that husband and wife may consolidate their loans, so that the repayment period is extended to reflect reasonable repayment and to safeguard against balloon payments at the end;*

*7) Review of the evidence that many delays in the delivery system arise from computerized systems now in operation. Caution is urged in experimenting with additional untried systems.*

### Regulation Z

To date, private lenders have put up more than nine billion dollars in loans to students despite extensive regulation. One of the principal disincentives is expense of administration and, in particular, the burden of Regulation Z (Truth in Lending), requiring a Loan Disclosure Statement for each borrower. In most commercial loans, Regulation Z serves a useful and necessary purpose, enabling prospective lenders to do "comparison shopping" for the best terms and to be provided with assurance against hidden costs, but in the case of the Guaranteed Student Loan program, Federal law and regulations issued by the U.S. Office of Education prescribe in detail both terms and conditions of a student loan. The interest rate is specifically stated; the maximum amount to be borrowed is stipulated; the period over which the loan runs is set forth; the terms and conditions under which the loan may be extended or altered are stated; the maximum fee which may be charged (1% per annum, at present) for guaranteeing the loan is set. Elimination of Regulation Z would represent a most constructive step toward making student loans more attractive to lenders and might even assist in bringing back some lenders who have defected.[27]

[27] One banker closely connected with administration of GSL program has estimated that about one-third of the loan procedure manual could be eliminated if Regulation Z were no longer required.

*The Council recommends that eligible lenders be relieved of the necessity of furnishing disclosure statements to borrowers.*

Loan notes, signed by students, may easily be modified to specify the level of student loan fee, maximum interest rate, maximum amount borrowable and other prescribed terms and conditions.

**Guaranteed Floor of 1% for GSL Lenders' Special Allowance**

The Guaranteed Student Loan program's special allowance should assure a level at which total return to the lender represents adequate compensation for the funds advanced and the administrative costs involved. It is proposed that there be 5% maximum and 1% minimum set by law and that within these limits the actual rate paid be established by a formula of "3 1/2% under the average 91-day Treasury bill rate." In other words, if the average 91-day Treasury bill rate were 5%, then the special allowance would be set at 1 1/2%. A guaranteed floor of 1% is indicated to be necessary at the moment to bring total lender return up to a level appropriate for long-term viability of the student loan program.

*The Council recommends that long-term success of the Guaranteed Student Loan Program and expansion of the lending base can best be served by assurance of a 1% minimum and 5% maximum special allowance.*

**Student Bankruptcy**

Voluntary student bankruptcy has become another major concern. Probably most students do not countenance bankruptcy, if only for fundamental reasons of basic, ethical behavior, fairness to other student borrowers in years to come, and adverse effects of bankruptcy upon credit ratings. Yet, student bankruptcies are continuing at such an alarming rate that it becomes necessary to prevent further deterioration of the entire Guaranteed Loan program. The Council is concerned not with true hardship extensions of time, but with what seems increasingly evident, premeditated, immature and selfish bankruptcy well before the establishment of a regular, working career with the normal remuneration to be expected therefrom. The intent of Congress in the 1976 Amendments should be preserved.

*The Council recommends that student borrowers be obligated to apply and demonstrate the benefits derived from the education made possible by the loan over the reasonable period of five years after completion of studies before there is any eligibility for bankruptcy, excepting cases of severe hardship (hospitalization or physical disability), in conformity with the education Amendments of 1976. This 5 year moratorium should apply to NDSL as well as GSL.*

**Loan Consolidation**

The Council has considered the complications for students graduating with several notes due at different times, at different rates, at different institutions. Clearly, some kind of consolidation similar to that in regular consumer loans is called for. Doing so becomes enormously complex, however, since student loans originate in such diverse agencies as Public Health, Department of Justice (Law Enforcement Education Program), Housing and Urban Development (Comprehensive Planning Assistance), Guaranteed Student Loans (both Federally-insured and State guarantee), National Direct Student Loans and others. Obviously, some form of "superagency" may be necessary to transcend regular agency boundaries and to provide both simplification and consolidation. A few major attempts in this direction have been made by Congress, primarily to permit consolidation of National Direct Student Loan with Guaranteed Student Loan repayments, but nothing has been passed to date.

*The Council recommends that Congress revise the legislation governing the Student Loan Marketing Association to include clear authority for that Agency to buy or otherwise assume all major student paper and to consolidate it, when necessary, to provide the individual borrower with a single repayment schedule and a single rate.*

The above step may be taken without Federal budget inflation, since funding for Sallie Mae comes from outside sources.

*If student debt consolidation cannot be achieved by means of restructuring the authorization for the Student Loan Marketing Association, the Council recommends that amendments should be added to legislation governing National Direct Student*

*Loans and Guaranteed Student Loans to permit repayments under the National Direct Student Loan program to revert to the lending institution as seed money for a new Guaranteed Loan program operated by the lending institution. This would permit such institution to receive interest on new loans and to discount or sell its paper to the Student Loan Marketing Association, thus providing additional institutional liquidity and considerably more student loan potential.*

APPENDIX A

# TEXT OF ADDRESS BY MR. EDWARD FOX, PRESIDENT OF STUDENT LOAN MARKETING ASSOCIATION, TO ADVISORY COUNCIL ON FINANCIAL AID TO STUDENTS

NOVEMBER 6, 1975

I think the easiest thing for me to do would be to trace back the growth of the participation of educational and financial institutions providing loans to students and then building up to the Federal involvement in those programs and ultimately to the creation of what we call a secondary market which is Sallie Mae.

I guess in New England in the mid 1950's and perhaps in New York State in the late 1950's, it was clear that the combination of grant programs and other forms of financing that were made available by the states and by the universities, either through philanthropy or by dollars that were appropriated by the legislature, that there were insufficient funds to meet the needs of a growing population of students.

The result of this really had its genesis with Sputnik. I guess that when Sputnik went up suddenly there was a terrific demand for scientists, teachers of the sciences and mathematics, things of this sort, in the mid to late 1950's. Suddenly, something called the National Defense Student Loan Program—which made it, I guess, easier to sell—Student Loan Programs got their start with the Congress. At the same time we saw in Massachusetts, we saw in New York State, the creation of loan guarantee type programs where institutions in those states, financial or educational institutions, were encouraged to lend money to students with either the state or a state insurance fund or some equivalent kind of an institution being the guarantor of repayment of those obligations. There was a tradition of expensive private schools in the northeastern part of the United States. There was a tradition for education and excellence in education in that part of the country. I think it was only reasonable to assume that this kind of a need would first be fulfilled in that part of the country. So it was.

These programs were trying to make certain that a student had access to the educational institution of his choice and was not refused an education for lack of financial resources. In other words, they were putting these dollars in the hands of the student so that he could choose the institution to which he would go. We had seen a lot of institutional based programs before that where the schools had the money and they could pick the students and say we will give you the money. But these state programs working through the banking institutions put the dollars in the hands of the student and give him some freedom of choice and accessibility to institutions that he really didn't have before.

Then in 1960 another program, the one that Bill Mirandon now represents, United Student Aid Funds, had its start. That was another form of a guarantee or insurance kind of a program. I will let Bill get into the details some other time because it is a rather complex kind of a thing. But it was felt that a private nongovernmental entity with philanthropic support from some of the major corporations and some of the major people in our country—the first chairman was the then former President of the United States, Dwight Eisenhower, this was 1960—could attract funds and offer programs to states and offer programs to educational institutions whereby they too could provide the insurance to make certain that funds were available so that students could get into the institutions of their choice and get the education they wanted. Again, it was the opportunity to expand the base of students due to the fact that financial resources were available, and the opportunity for them to be able to finance their education out of their own earnings. The inducement to the lending institutions was that there was a guarantor, somebody willing to pay the freight if

the student couldn't make it.

The need for this guarantor was that unlike a mortgage or automobile loan, there is no solid piece of collateral that you can grab and then sell. You have a human mind of course. You have a contributor to the economy. You have a better contributor to his own well being and financial standing in the community. You have a tax payer. You can go through all of these economic and financial arguments about why you should lend to people. But there had to be an equivalent of a cosigner. There had to be somebody willing to stand up behind that student. That is where the United Student Aid Funds, that is where the state programs and ultimately the Federal program, felt that the need was established and the program had to be created.

These various state and USAF programs functioned with reasonable success and reasonable volumes through about 1965. At that time a massive effort in the higher education act of 1965 to bring the Federal government into these programs was exercised. The Federal government came in November 1965. What has been created in the last 10 years is a variety of programs subject to a lot of changes over these 10 years as they have been amended and gone through various paroxysms of expansion and contraction, like only Federal programs can be manipulated and managed.

So that now you have various statewide programs in about 25 or 26 states. You have the United Student Aid Fund programs offering guarantees in a number of states as administrator, in others as insurer, and I guess in various institutions as well, both financial and educational. And you have the Federal program in the rest of the states, covering even some international institutions where United States students attend.

What they have in common is that they are insuring or guaranteeing that repayment will be made if the student to whom the accommodation has been made doesn't pay. Loans are made today by about 20,000 institutions. These include banks, savings and loans, mutual savings banks, colleges, universities, postsecondary trade, technical, home study and vocational schools. In addition, 6,000 or 8,000 education institutions are eligible for their students to obtain loans. Now whether all of these are still in the program today or not I can't tell you but over the years these are the numbers that have become eligible by virtue of the law.

Something in the vicinity of $9 billion of these guaranteed loans have been made since 1965 under the Federal and state programs. I suspect that another billion or so was made before that by the state and USAF programs. So what you are looking at today is probably the largest single source of nonparental funding in support of postsecondary education, the guaranteed student loan program.

I would like to distinguish this from the National Direct Student Loan program. NDSL is a school administered program. I am sure you are all familiar with it. The school gets a capital contribution through a process of making a request for funds, having it analyzed by the regional HEW office and then by virtue of the dollar amount that is appropriated by the congress, getting their appropriate share. There have been a lot of attempts to phase out the NDSL program. There is an attempt to do that right now in some proposed legislation. The alternatives are interesting but they are so broad that if anyone has any questions we will get to them a little later.

But the guaranteed student loan program is the program by which the dollars are put in the hands of the student, not in the hands of the school. NDSL is probably a $2-1/2 to $3 billion totality program. The guaranteed student loan program is perhaps a $10 billion program. I won't bother with the variety of other programs, the grants and the like, because that is outside of my field of knowledge. But I understand that you had a review [illegible] will have a review or have been looking into those at other times.

Now since this program was created in 1965 the national economy has gone through a number of upheavals and changes. What had been a relatively stable bond and debt market in the early 1960's, where interest rates were stable, where there was a predictability as to interest rates, where things seemed to fall into patterns and were reasonably explainable, that has all gone by the boards. Political economics being what it is and the international economics and finance being what they are, we are seeing changes in interest rates in 1 week that used by surprising if they occurred in a year if not a decade. Just last week we saw interest rates change by almost half a percent in a number of areas in 2 days. Those are very dynamic shifts. They have an impact on the banking institutions. Any of you who have ever borrowed, and I am sure that includes most of us, know that what is a 5 percent rate to borrow one day could be 7 percent

a week or two later. This makes planning very difficult. This makes financial aid a very risky kind of thing to predict.

In 1966, 1969, 1970, 1972, and 1974 we had what they call "crunches" of varying degrees of magnitude. These crunches are such that the financial institutions are put into a bind. The cost of funds that they had tracked to their portfolios goes up and in turn they have to offer higher cost funds to people who borrow from them. That is only natural because they want to make some money on what they are doing, not lose some.

In addition, Federal Reserve policy, for whatever reasons it might be, frequently draws funds out of the banking system so that there is less money available. People just a few weeks ago were taking money out of the banks to invest in high yield Government bonds. That reduces the amount of money that the banking system has.

So for a variety of reasons, both political, financial and economic, monetary and fiscal policy, disintermediation as we have gotten to know it, the banks have just not had a constant source of funds to meet all of the demands that are made on them. As a result, who suffers? The first person that suffers is you or I if we want to go to the bank and get a consumer loan at a time when funds are scarce. The second group of people who hurt are what we call marginal borrowers in just about every category: your smaller corporation, your smaller municipality who likes to borrow from banks. Basically, it is your have-nots who suffer first when somethings like this happens.

The have-nots who seems to have suffered the most when disintermediation and other forms of distress hit the banking system are your student borrowers. This is not the most popular income producing portfolio vehicle for many financial institutions. They have other uses of the funds that are more productive and earn more money for them. In defense of the banking system, they have made an amazing contribution by putting up $10 billion in support of student loans. I think that most of our bankers around the country are good neighbors. I believe that they have do-good parts, as I characterize them, in which they make minority enterprise business loans, small business administration loans. They make student financial aid loans. They make loans to neighborhood redevelopment projects and the like. They know that they are going to be examined by their public constituencies. I think by and large a lot of business has gotten done where there have been alternative investments for these institutions that would have been much more profitable for them.

I have met a number of institutions that like this kind of business and encourage it because it means that ultimately they will have a local student growing into a homeowner and a businessman in their community. They can establish a banking relationship. They feel that this is a good way to start doing business with an individual. Other institutions just feel that there is a compulsion on the part of being a good neighbor and a compulsion on the part of the review from banking examiners, the Congress and people such as yourself, who look to them to provide these social amenities and services in financing. If they don't they are going to be subject to very strong criticism.

So as I say, in fairness to the banks, for whatever reasons have motivated them, they have gone out and they have put out $10 billion in these programs. That is an awful lot of money, particularly considering the low yield, the amount of red tape that is implicit in this program, the frequent difficulties they have in a variety of ways with the administration of the program, and the fact that they have been inhibited in expanding their programs because of this tightness of money and these financial crunches that they have been forced to suffer.

Back in the late 1960's and early 1970's after the first couple of crunches had hit, somebody got up and said, look, you put a kid into school, you give him a loan, you have got to see him through. The banking system suddenly says we can't make loans any more because we are in one of these crunches. How can we assure that there is going to be a constant source of funds in support of those students, the ones we put in school, the ones we have given the encouragement to get an education, and the ones who are coming up that we would like to see get an education. Give us some kind of a vehicle, give us some kind of an institution that will make certain that there will be a constant flow of funds, evening out the flows of funds so that dollars will always be there.

That was the basis for the Congress reviewing the alternatives by which Sallie Mae was created. It was decided that they needed an entity that didn't depend on tax revenues or direct Government borrowing. I think the drift of Government is to get away from setting up large Government corporations that use tax revenues in support of social programs. You can look at FHA, you can look at

this program, you could look at a variety of others where the Government feels it would prefer to insure the repayment of the obligation rather than put up all of the money for the obligation itself. It is much easier to pay a 1 percent a year insurance or to take a risk for 1 percent or to pay a couple percent insurance or interest subsidy to a lender if you can get a lender to put up the 100 cents on the dollar.

I think the former Secretary of the Treasury, Joe Barr, used to call that "more bang for the buck". If you get the consortium of lenders here in Washington to lend the dollar and the Government puts up 2 or 3 cents of interest subsidy and agrees to meet the defaults and deficiencies, they are getting a lot more to make those loans than if they had to make the loans themselves. I think if the Government was required to meet all of the social obligations that they are requested to fund, there would be insufficient tax revenues. So they are forced into prioritizing and discriminating between programs.

It appears that about 10 years ago the Government got into the business of trying to put the burden of putting up the dollars on the private sector, either insured or guaranteed by the Government, getting more dollars working with the guarantee of the Government but not having to put up the tax revenues each year.

Sallie Mae is the third corporation that is privately owned that is funded from outside of the Government but yet is Government chartered and has some positive attributes by virtue of that charter.

The first corporation so chartered was COMSAT, the Communications Satellite Corporation. This is today a $500 million corporation. It has been trying to articulate and exercise a policy in communications satellites that has been keeping the giant communications companies from competing with each other in a way that might have dominated the business; take IT&T, AT&T, Western Electric, Western Union alike. It has done a good job trying to provide a service at low cost in the area of international communications expertise, working with the Government in putting these big satellites up in the air.

The second corporation is Fannie Mae. Fannie Mae just reached $30 billion in size, providing housing credits by virtue of buying loans made by institutions all over the country. I think the FHA program's success owes itself to Fannie Mae owning roughly half of the loans that are currently in existance. This FHA program has so broadened the dollars available for housing in this country as to make housing available to millions of people who otherwise couldn't have gotten it.

So the concept was to set up Sallie Mae, a private corporation attracting its funds from the private sector—we sold our stock to banks, colleges and savings institutions—raising its money through the sale of its debt—this is where the Government comes in. The Government guarantees our debt, at least in the first few years of our operation—and telling us to take this money and go out and make it available to banks, schools, savings institutions in the cheapest way we can, consistent with making a modest profit in our own name. To go ahead and make these funds available in a variety of ways to those institutions who make student loans.

Now, the way we can do this is in two or three different ways. First, we can lend money directly to banks, schools and savings institutions and others who are lenders. Because our source of funds, by virtue of the Government guarantee, is the lowest cost of funds in the country, we have been able to offer loans to banks—Bank of America for one and the First National Bank of Salinas, Kansas, for another, just to give you an idea of the spectrun of institutions we deal with, and perhaps a couple of hundred in between who have availed themselves of our services. We lend money and the collateral for that loan is the student loans that those institutions have. The requirement is that money they borrow from us must be reinvested within a reasonable period of time in additional student loans.

We have been able to put our approximately $250 million worth of those loans to corporations and banks and schools all over the United States in our first 18 months of operation. I should have mentioned that we have only been in business for a little less than 2 years.

We have been going all over the country, meeting with lenders and letting them know that we have the dollars. The only thing that has inhibited our growth has been the reluctance of certain institutions to want to work with a Government entity and also the last 6 or 7 months, the fact that there has been a lot of money in the banking system so there have been few takers among the bankers for the funds that we have available. But we expect that if money gets expensive again these people will know that we exist and they will come to borrow from us.

As I say, we have $250 million of loans

outstanding to banks and educational institutions, which dollars must be reinvested in student loans. The reasonable period depends on the term of the loan involved from us and our expectation of their loan by what we think is an appropriate period for them to get this money back in.

The second way in which we can deal with lenders is to buy the loans that they have made. Now this program is a very difficult one for us. We have been in it for only about 9 months now. We have approximately $70 million worth of loans that we have purchased. Most of them have been purchased in the last 6 months. We are prospectively the largest owner of student loans in the country. We have to make certain that they are properly originated; that due diligence has been observed in the maintenance of the loan; that appropriate servicing requirements and standards have been established; that the student's rights are being understood and protected; that communication is made between the student and the lender and the educational institution so that they understand the contractual obligations. That is not just the student, it is all three. Frequently we have found that there are some difficulties with any one of those three; the lender, the educational institution, or the borrower.

We are trying to put together standards, servicing procedures, origination procedures, so that we can have a positive impact on the way this program is administered. If anybody wants to do business with us in the purchase program where we go out and buy loans, we want to be certain that in terms of the responsibilities that each one of those people; the educational institution, the financer, and the student, that his rights, responsibilities and need to know have been satisfied. We have worked with the departments of the various state agencies. We have worked with USAF. We have worked with HEW. We have worked with the big lenders—to articulate a set of standards that some of the methods by which business is done today could be tightened up to the improvement of the program and for the advantage of all parties concerned.

For example, a student who is a freshman who makes a loan may not hear from the lender for 5 years, and then suddenly when that student can't be found it is a default. We live in a very mobile society. That student may not be at fault there. It could be that there is insufficient income on this note for the lending institution to go and try and find the student. Yet here we have a default.

We think that there should be timely communication between all of the parties involved. We think that there should be prudent businesslike standards on how loans are serviced. We think there can be economies of scale in servicing. We have a small number of services and we help put together those standards and put the volume in those institutions so that we can take advantage of these economies and pass that savings on down to the educational institution, to the student and to the person who sells us the loan.

Now, we have been working very diligently for the last 2 years to try to put together the foundation here, the means by which we can handle millions of pieces of paper, because basically that is what we are dealing with. We are dealing with perhaps the worst conceived consumer note that has ever been created. We are asked to buy thousands of pieces of paper, to know where those pieces of paper are, to know there those students are, to know what the amount owing is. We are asked to buy these pieces of paper not knowing what the rate of return is, not knowing when they are going to be paying back the loan, not knowing if it is going to be paid back, not knowing who is responsible for the different flows of funds. We have notes where the student is responsible for a piece of it, the lender is responsible for a piece of it, the guarantee agency is responsible for a piece of it, the Federal Government can be responsible for interests subsides. All of these things mean that we haven't any idea of where the money is coming from, when it is coming and how much is coming to us. Yet we are asked to out and buy hundreds of millions of dollars of these pieces of paper which you the bankers have been suffering with for many, many years. Our only business is student loans. We have to be very, very careful how we do this.

We have managed to make a very modest profit in our first couple of years of business. We are up to over $320 million in total footings right now. We think the most important role we have, outside of providing the funds, is providing some standard by which the loan programs can by administered. If we, outside of the political processes, independent, privately funded institution, outside of the competition between the Federal government and the states, outside of the competition between the legislative and executive branches, can articulate standards of excellence and can try to put the businesslike procedures on this program, we think that the program will not only be improved by this but people willing to put their dollars up, including

ourselves, will feel much more comfortable about it and will continue to support the program.

We think that we can probably put about $250 million in the program in the coming year. That is roughly our goal. If the demand is there for more volume we can do that. We have an open ended charter from the Congress in terms of dollars. So if all $10 billion of those loans were thrown to us we could buy them.

I am very fearful of buying loans where there is not adequate review of how the loan was created, if there is a student behind the loan—fraud is a big problem here. We want to be certain that those various defenses that a student or a lending institution can raise against repayment have been explored by ourselves. We want to make certain that there is a student at the other end of the note, that he got the education that he is supposed to be paying for, that he was apprised of his rights. These are things where a student can defend against repayment of the loan and suddenly, what appears to be a guaranteed or insured loan with a Federal Government guarantee, turns out not to be so.

We want to work with the Congress, HEW and the states as we expand into those various programs that are somewhat different than the Federal program. Not every program is the same. Some programs are guaranteed 100 percent by the Federal government, some re-insured for 80 percent. Some are guaranteed for interest payments, some are not. Some are coinsured by the states. Some there is no re-insurance at all. I beleive in the State of Ohio some portion of the loan is not guaranteed by anybody.

There have been changes in the interest rate on these loans 3 or 4 times in the last 7 or 8 years. There have been changes in standards of minimum income that a student's family can have in order to qualify for a loan. There have been Lord knows how many changes. What that has done is created 200 or 300 different types of loans outstanding. Each time they make a change in the law they are changing all of the characteristics of the note. Yet we are asked to go out and buy this stuff.

We think we can. We think we have got a small group of people with financial and educational backgrounds. I don't believe in large bureaucracies. We have 55 people on our staff right now after 2 years of operation. It is a group of people who are socially aware and financially adept. We think we can make this corporation go so that when the umbilical is cut with the Federal government in about 5 years and we no longer have the Federal backing but are a solely private corporation, we think we can have a sound balance sheet. We think we will have properly administered our programs. We think we will have improved the whole program by virtue of our willingness to put up capital.

In recapitulation, there was a need for somebody to put up dollars on an even flow basis so that students would have access to dollars in support of their education through the whole educational process. We are that vehicle. The banking system, the educational institutions, have been supportive but they don't always have the dollars and as a result they turn to us. We have been putting the system and the controls and the operational program functions that are necessary to run a prudent business.

I think we understand both the social and the financial implications of what we are doing. It has been gratifying to us that such diverse institutions as the Carnegie Commission, the Brooking Institution, and the American Bankers Association have commended our efforts to this point. It is interesting to note that a number of the legislative proposals that are before the Congress right now would expand our authorities and responsibilities into the NDSL program as well. I don't know whether we are ever going to get that or not. I don't know whether I want that. It is one thing to be given the opportunity to provide service but we are here to preserve our capital position. As a credit generating institution we would have to treat our constituencies different than a capital contributing Federal government.

But it is comforting that people think we are moving in the right direction. It is a very complex business. Nobody ever said it was simple but it is far more complex than I ever envisioned it would be. I commiserate with all of you that are in the student loan business. It is very, very tough but very necessary, not only for the student but for survival of some of our institutions. I would be delighted to answer any questions you may have.

**MR. STEERS:** To start off, since you are bent in the direction of being prudent and since apparently the student loan program considered at large has been accused of not being sufficiently prudent, the loans that you take over by purchase or otherwise, presumably will be kind of the cream, that is, in terms of repayability. I am just wondering what your comment would be if you absorbed all of the good loans, what do you envision will happen with regard to all of the bad loans?

**MR. FOX:** When you say good, are you referring to those—

**MR. STEERS:** That are going to be paid back.

**MR. FOX:** That won't go into default.

**MR. STEERS:** That is correct.

**MR. FOX:** We have no difficulty in buying loans that are going to go into default after we have done some analysis of why. I will give you an example. I know some loans that were created by banking institutions to lower income and minority students in what could basically be called an uplift kind of a program. These were vocational schools. They were under the aegis of state agencies like the state-run 2 year trade, technical and vocational schools. The likelihood that you are going to get 100 percent repayment is somewhat remote but offering the opportunity to those students is very essential.

Now we would look one way and approve of loans where there is a high potential for default that were created under that kind of a set of conditions. But we look another way if we found an institution that had a hook out and pulled a bunch of people off the street and soaked them and the high default is because they didn't get an education. I think the Federal Trade Commission at some of the hearings recently has distinguished between these two different types of programs.

We look at the insurability of the piece of paper. If we think that the Federal government in looking at the paper will feel that it is an insurable loan, that if the default if put to the Government they are going to pay it—we feel that is the criteria for deciding whether it is a viable loan for us to buy. I think they look at it quite that way too, as I just mentioned.

We have seen some shoddy practices and we won't buy those loans. We have seen some institutions with potentially high default rates where we will buy the loans. We try to distinguish between those loans that are going to be kicked back by HEW and those that won't. We can't, as you obviously know, go out and risk our very modest capital. We have been in business only 2 years and yet we are probably leveraged at about 13 or 14 to 1. We have $25 million of capital and $320 million in borrowings. It takes a very modest loss of incremental dollars there to wipe out our capital. That is where the prudence comes in. It is survival, both politically and financially that makes us somewhat prudent.

We think we can do as good a job in making those kinds of distinction as anybody. The loans we have bought have been pretty reasonably skewered from the portfolios of the institutions we have been looking at. We haven't and we won't buy any of those loans except where we have seen a bank portfolio. We are looking for stratified portfolios. We buy that kind of portfolio. We don't want to buy just one segment. We are looking to buy an even stratification of their whole portfolio.

**MR. STEERS:** One final other question. I noticed that you raise your money, I think you said, from lenders—the $25 million, your capital—was it from educational institutions. Has any part of the equity capital been supplied by the Government?

**MR. FOX:** No. We are permitted to borrow up to $5 million dollars from the Federal government for seed money. How I did it I don't know but I got $500,000 from a consortium of banks in the district to start our corporation with. You might be amused by the fact that our first statement 3 months of operations and $200 million of debt. I don't know how we pulled that off but today, with $25 million in capital and $320 million in debt we fell so secure compared to that first time.

**MR. MIRANDON:** You never touched the seed money?

**MR. FOX:** I will tell you the truth, my Board—let me tell you something about this board by the way. The Board is bipartisan, young and old, black and white, male and female. It is a great board. There are seven financial people, seven educational and seven public interest. They come to work. We have got the presence of some of the biggest banks in the country who have been involved in student financial aid for years. We have got student financial aid officers from universities, deans. You have got a really good group of people there. This board has really been putting in the hours over the year or so.

Joe Barr, again to use the former Secretary's name, said if I could avoid using Government seed money I would avoid an awful lot of red tape later on. Of course I begged this from institutions that don't want to do business with me now. He was right. We have done it strictly with private funds. But the law says that we have to sell our stock to those people who are lenders under the guaranteed student loan program. We have about 700 stockholders, two thirds banking institutions and one third education. Our Board includes people from higher education, trade and technical, vocational. Some of you in financial aid may know Allen Purdy who is one of the very active people in this area. In financing we have the president of the First National City Bank of New York which is

probably the most dynamic banking institution in the country. We have the dean of the business school of the University of Texas.

As you go around the country, these are people who have been activists in student financial aid in one way or another over the years. I wrote a paper a few years ago and found in my research that most of my original Board had been lobbyists for various institutions in support of the creation of a secondary market. That answered where many of them had come from in the original appointment process.

Our Board is now elected, two thirds elected. Seven are elected by banking shareholders and seven by educational shareholders. We had our first election in April of this year. Seven were appointed by President Ford. Originally the full Board was appointed by President Nixon in December 1972. We began in the summer of 1973 as an entity.

**DR. COGDELL:** How do you reconcile philosophically your altruistic statements about your concern for social matters and remaining solvent?

**MR. FOX:** I think that only be remaining solvent can we have any impact in the long run on the program. Let us say we have 21 various Board members and they all agree that only be expansion of services to the educational and financial communities.

Politically we have got to show that we carry our own weight. Otherwise, we can't make it. Financially, we look to outside capital to support ourselves. Only with a balance sheet that is strong and prudent management can we continue to attract the funds we need for our business. We think that once we impose the disciplines of the marketplace on our own business and impose some discipline on the administrative and financial functions of the loan programs, can we make it an attractive vehicle for people other than ourselves to continue to put money into it.

We think we can expand and sustain this program by bringing some credibility to it. The credibility means our own credibility which means not losing our tail. If we start losing a lot of money we lose our credibility and we can't raise funds in the marketplace. We are dependent, as a private corporation, on being able to raise money at low cost which we can in turn put into financial and educational institutions in support of this program. I am not suggesting we go out and try to make maximum profits. I don't believe that is anybody's intent in this corporation. We pay no dividends, for example, or anything like that. What we are trying to do is to pay our own way, have a reasonable return on equity to those people who bought our stock, and to be a backbone, a successful financial backbone to the program. Only by bringing these disciplines and a modest profitability do I think we can do that.

We all have the same social and altruistic feelings toward the program. We all believe this. I have a very unique kind of person working for me. These are young people, mostly with graduate degrees, who would rather be selling this product than selling something else. There are two returns for them. Yes, they are looking for a profit making corporation, but the product is a social product. They like that. It is a very unique kind of person that you draw into a situation of this type. Our salaries aren't as big as industry but we have to compete for the bright people coming out of graduate school with financial backgrounds. I think the social motivation is in every one of them. Some of them come out of educational institutions, others out of graduate school. But they are motivated toward the social implications of this thing. I think that is what has attracted them to our corporation. That is what attracted me.

**MS. MC AULEY:** I like your description of the staff as being socially aware and financially adept. What kind of advice would you give to those of us who are managing the NDSL program?

**MR. FOX:** I don't know that much about that program.

**MS. MC AULEY:** You know that it has a high default rate and that you don't want to buy that paper.

**MR. FOX:** I have heard people say that the default rate ranges from less than the consumer loans foreclosed at your major banks to 100 percent, depending on the institution. I have heard it said that some institutions don't like to collect this money because they like to think of it as a postponed grant. Others are very diligent. Others don't have the capacity or the staffs to do the collection. I have never done any personal studies that would tell me what the truth is about this program. I have heard numbers from 3 percent to 30 percent in the guaranteed student loan program as the potential default rate. I have yet to find anybody who had sufficient data to prove either extreme. I would be ill advised to make a guess at what the default is within NDSL.

What I see is a welling up of interest in somehow or other making NDSL and GSLP loan programs with one set of criteria with the same interest rate,

the same subsidy and everything else and removing the two parallel bureaucracies that support these things. I see the Government wishing to get out of funding the NDSL program. I guess with the O'Hara bill he went so far as to suggest that too. I guess I can't really make any more comments than that except to say that the whole student aid budget as part of the higher education budget here at HEW has been growing so rapidly at a time when the total higher education budget has been somewhat stable that the percentage of dollars going in support of student aid has been eating up other programs. Everybody with a vested interest in another program would like to get the Government out of student financial aid one way or another. I think that is the argument to wipe out the capital contribution and to change these programs around.

**MR. MIRANDON:** Ed, two mundane questions, one related to the other, I believe. Have you ever had any repercussions from the student when he suddenly woke up to find his paper was in your hands? Will you accept a consolidation of loans? In other words, most students have more than one loan.

**MR. FOX:** We have only been owning loans for about 6 months. Most of the loans we have bought if not all have been in school or grace period because it is much easier and less costly to transfer to our servicers. We have not attempted to buy loans where the student is paying it back but that is something we have to start changing around. We will eventually but for the moment we are just walking before we start running. I don't believe the students are really aware or have made any comment about it. They are not going to come directly to use. They are going to be going to banks and service institutions around the country.

The other point was one that is very close to my heart. I have always thought that the computer here at HEW could spit out for me a listing. If I were to throw in the social security numbers of all of the students whose loans we owned, that they could throw back at me all the other loans that student has. They do list them by social security number. If they could throw back to me that that student whose note we own has notes here, here and here, I could go out and buy that paper. I could buy it at a very attractive price. I have already been committed to the servicing of that paper with the segment that I own. I could consolidate and I could cure one of the biggest problems we face today. That is the multiple repayments these students have under not only these programs. That is something that if they get the computer working we dearly would like to be able to offer as a service to the student.

**MR. STENEHJEM:** We have been buying loans for 3 years. I think I worked with Mr. Simmons on this program. We do not buy those that are in repayment because of the administrative difficulty. But we do consolidate loans from various banks within the state. To date we have had no repercussions from the students. We notify them that we have bought the loans, not because the bank that sold it to us didn't like them or are afraid of them but to make more money available to other students. We have had no problem with that at all.

Now, I often wondered about one of your programs. On your warehousing you insist that they put the money back into the program. On the buying you don't. Shouldn't that be the other way around?

**MR. FOX:** Logically you would say so but that is what the law is.

**MR. STENEHJEM:** I see what you mean because I have often wondered why when you buy they don't have to put it back in but—

**MR. FOX:** That is right. When somebody borrows money from me he has to reinvest in additional loans and he pays back the loan. If he pays back the loan to me he now has two student loans and he really hasn't gotten the kind of help he was looking for. Whereas, when someone sells a loan to me he has no loans and he has no responsibility by law to make another one.

**MR. STENEHJEM:** You contract servicing in all cases?

**MR. FOX:** Yes sir.

**MR. STENEHJEM:** Have you reached a point on your buying where you have students in repayment or default?

**MR. FOX:** Yes.

**MR. STENEHJEM:** You have only been buying this last year.

**MR. FOX:** That is right.

**MR. STENEHJEM:** You have not had to wait for HEW to pay the default then like some of the rest of us for a year or more.

**MR. FOX:** I was at the American Bankers Association conference last year. The California bankers brought to my attention the fact that HEW was a year behind in curing some defaults out there. I came here to HEW and I got assurances that they were contracting to the outside to get outside labor and that by June of 1974 the State of California would be caught up. So I said that I had good news

for those bankers out there in California and I told them that. It is now a year later and they still haven't been paid.

**MR. STENEHJEM:** The ideal was to go to the regions and then the regions would service the claims instead of having them in boxes here in Washington. Now they are in boxes in the regions.

**MR. FOX:** I don't want to get into the position of castigating and criticising my host here today. We, one day, will be the largest lender in the program. I think we all recognize that this growth of the program and the limited number of personnel and budget that the agency has had and some other operational problems that have been created over the years have made it a bit difficult to keep people interested in the program.

I think the fire is behind us and the smoke is in front of us. I think that the disclosures and the brow beating and breast beating at HEW is still in front of us. We have hearings and potential legislation. I understand they have hired 150 people for the regions. Is that the right number, Bill?

**MR. SIMMONS:** It is 220 I think.

**MR. FOX:** They have hired the people for the regions. Now they have got to train them and put them in the regions. That took a couple of year's doing to get that appropriation. I know Charlie Cooke and Ken Kohl and I would like to believe and I do believe that they understand the problems. They are working with a gigantic bureaucracy. I am told that there is mail room in the basement of one of these buildings that frequently takes 11 days for interoffice mail. I read in a magazine a few weeks ago that some bankers have taken to sending letters to the homes of some of the bureaucrats here as the only way of getting mail on the proper desk. This kind of thing is appalling but it is true. You are dealing with 150,000 people here. That is as big as Little Rock, Arkansas.

**DR. O'HARA:** I thought your response to Bill a moment ago created some problems for me in an area that I can't visualize. When you are talking about buying paper I would assume that you are talking about buying on an organizational level rather than from individuals and when you talk about consolidating loans that throws me off. I can't visualize that through.

**MR. FOX:** Let me walk through a transaction. The only people who are allowed to make loans under this program are those that are empowered by HEW. They are institutions. They are primarily lending institutions and institutions of higher education. Once that institution gets an authority to grant a loan and make a loan, the student has to go through a process—and I guess Ken Kohl must have talked about this this morning—to create that loan.

We are only empowered to deal with those institutions and only have power to deal with those loans that qualify under either state, Federal or USAF guarantee. So there is a very limited kind of paper that we can deal with. They have to be guaranteed loans that have been created by those institutions that are empowered to create that loan.

The student, in the course of his education, may borrow from the school, may borrow from the local bank. He may go to school out of town and become a resident of another state and borrow from that bank. In the course of his education and perhaps for graduate school he goes someplace else, he may actually become a borrower at two, three or even four or five institutions, maybe a couple of schools and a couple of banks, his home bank and others.

When the time comes to start paying back the loans he has to make a minimum repayment of $30 a month. The suggestion is that if we could find out who all of those lenders are that that student has done business with, we could buy all of those notes and consolidate them into one lump-sum debt. If need be, if his requirements were such, he would only have to pay back the single $30 a month minimum repayment in order to satisfy his obligation. In so doing, there are certain individuals who will find that their capacity to pay is enhanced by such a consolidation. It is frequently beyond the capacity of a student just out of school to make those multiple repayments.

That is where we think that we may be able to perform a service. It would be enhanced by having access to this computer data which would tell us where these individual loans are and we could identify those students ourselves and try to perform this consolidation before the student graduates.

**DR. O'HARA:** So in that sense the purchase would be on an individual basis in those instances.

**MR. FOX:** An individual note basis.

**DR. O'HARA:** In buying the paper from the institutions. In other words, you are giving individual treatment—

**MR. FOX:** We are offering to buy other loans too. Generally, we are going into those institutions and

saying we would like to buy your loans but by the way, you could be helping the student out as well as helping yourself out if that loan were sold to us too. It would be probably inopportunistic for us to go out and buy one loan, but if we identified that the Bank of America has 200 or 300 of these notes then financially it makes some sense to do that.

**DR. COGDELL:** Is it correct to assume that if you buy two or three loans for a student and reduce the payments from $150 to $30 and probably in so doing extending the period of payment, would that increase appreciably the amount of interest that the student would have to pay on the aggregate loan?

**MR. FOX:** Absolutely. But the reason for doing this is not to go to the student and say you must make a minimum payment. The student comes to terms with the owner of the loan as to how he wishes to pay it back. What this would do is give the student the opportunity to work out a repayment schedule that gives him at least the opportunity to pay back less per month if that is his need. I would never ever encourage a student to take more debt than he needed, in the first place. I would never encourage a student to hold that debt longer than he had to. But every option the student has to deal with his own cash payment enhances the opportunity for that student to manage his financial affairs to his own self-interest.

**DR. COGDELL:** Yes, but I think the fundamental question in my mind would be is that a help or a hinderance to the student in the sense that the period of loan repayment would be elongated and also the amount of interest associated with the combining of those loans and reducing the payments. I wonder if it is beneficial to the student to engage in such an operation.

**MR. STENEHJEM:** Mr. Fox, you are held to the same regulations in repayment that we are.

**MR. FOX:** That is correct.

**MR. STENEHJEM:** In that case, there is a 10 year limit, 15 years from the start of the loan. Also, in cases of multiple loans, all loans must be taken into consideration when repayment schedule is set up. In other words, not all banks will want to do that but if he had 5 loans at $1000 each, for easy figuring, each one of the banks would be entitled to one fifth of that minimum payment. Now, it might not be $30. On $5000 it would be more like $60. But $60 is much easier for a student than $150 a month. They just can't possibly do it. There are automatic defaults when they get into that big a repayment.

**DR. COGDELL:** What I am talking about is the cost of borrowing money for 3 or more years. My question is, the principal of the loan still has to be paid in addition to the interest. The interest, I am assuming, would be increased if the period of time is extended.

**MR. STENEHJEM:** That is the student's prerogative. He can pay up that sooner no matter what kind of a minimum payment you have set him on. He can pay that up any time without penalty.

**DR. COGDELL:** I understand that. What I am trying to find out is would it be to the student's best interests in terms of the long run—

**MR. MIRANDON:** In no case would he be asked to pay so little that he would not be able to cope with the interest if that is what you mean.

**MR. FOX:** If the student decides that he wants to pay it out in a longer period, yes it is true he will pay more interest. But it is also true that he might not be able to pay the demand that is made on him by the bank and he becomes a defaulter. He is then chased by the guarantor for repayment. So he has the option. Let me make one point here that I think takes us off the hook as being the mean guy here. The longer the loan is on our books the less we make because we have to pay a common cost of servicing. When the loan is a large dollar amount on our books and I am paying $20 a year for servicing I make money. But the last 2 or 3 years when the loan gets down to $300, $200 or $100 and I am paying $20 a year for servicing I am losing money. So in actuality, the longer the repayment process, the less we make on the loan. If the student opts to stretch it out, I don't make the windfall because my big cost is servicing cost which is constant.

On a $500 loan, $20 a year servicing cost works out to what, 4 percent a year. That is a heavy tax for me when I am only grossing about 7 percent on the paper. On the other hand, if I buy a $5000 loan and I am paying $20 a year for servicing that is less than 1/2 of 1 percent of the cost chargeable to me off the top. So I would prefer to see it get paid up very rapidly because my servicing costs are reduced. It is not in my best interest to do this.

**DR. COGDELL:** I am not trying to belabor the point. I am just simply trying to see if there is any difference if the option is open to the student in terms of jumping in the water which is too deep and they can't swim or in terms of jumping into the fire. If you can't pay it immediately versus the amount of interest on the total loan whenever he does get to pay it in terms of the long run.

**MS. MC AULEY:** First of all, you have to really back up and think about whether or not a loan should be made in the first place. That I think is where a lot of mistakes are made. A loan in my book is the type of aid that you give as a last resort and not the first. That is where the biggest defaults occur because you give it to a student who really you cannot expect to pay back the loan.

**MR. STENEHJEM:** You can get some awful surprises by trying to prejudge who is going to pay and who isn't.

**MS. MC AULEY:** That is true.

**DR. COGDELL:** Also, a loan may make the difference between a student going to college and not going to college. The grants and other aids may not stretch.

**MS. MC AULEY:** It is a last resort but it is not the thing you do first.

**MR. GORDON:** It might make the difference between retention sometimes too. Maybe the college work study, for example, might be too much of a strain. He may have to resort to a loan to stick in.

**MR. STEERS:** I am a little confused. You speak of your loans as being guaranteed. Will you sometimes or ever be in the position where you will be collecting directly from the student on a defaulted loan or will that always be the preceding lender from whom you got the loan?

**MR. FOX:** We buy the loans.

**MR. STEERS:** Lock, stock and barrel. If it comes to a default on which you would have to sue if you ever wanted to collect and be hardnosed about it, do you have any rights back against, in some cases at least, these guarantors when you spoke of guaranteed loans?

**MR. FOX:** We have some rights. When we buy the note from the financial or educational institution we undertake on an ongoing basis the servicing of that note. We ourselves don't service it. We have five banks around the country to date—I am sorry, four banks plus the State of Pennsylvania. There is Wachovia, First of Minneapolis, Bank America, AFSA a west coast subsidiary for a Chicago bank, plus the State of Pennsylvania. Those are our servicers at the moment.

These institutions perform the servicing for us, go through the applications of our servicing manual, collect the monies, remit them to us. If the student doesn't default those are the various stages as outlined by the HEW manual. After a certain number of days if there has been no collection they send a note just as any other lender would to the guarantor, the state agency or the Federal government, for collection. The Government of the state examines the documentation, makes certain there is no inappropriateness or defenses against it and then pays out.

**MR. STEERS:** To you.

**MR. FOX:** To whoever the lenders were. We are no different than any other lender. A commercial bank or school would be treated exactly the same way. Then the Federal government or the state would try to locate the student and would try to collect from that student.

As I understand, the biggest cause of default, particularly in higher education, is the mobility of the student and the inability to find the student after many years because there is no provision that requires constant monitoring of the location, address or the educational process of the student. A lot of defaults have come from the trade, technical, vocational, home study schools.

**MR. STEERS:** I am not sure whether you are protected in many cases or in all cases by the guarantor.

**MR. FOX:** No. There are defenses, just as there are defenses against other lenders. For example, if the student has not received the education contracted for and the financing was provided by an educational institution there is a defense. Therefore the insurance doesn't hold.

There are a number of others, particularly as we have seen consumers within the last couple of years in Washington—I should mention also that we had worked with the Federal Trade Commission and others in developing our own standards of how we deal. We have been forced to set up a credit department, not of the students but of the institutions because we may be forced to have recourse against the institution for certain origination, aberations or fraud or any number of things. We have recourse under the fraud provision, for example, back to the originating institution.

**MR. STEERS:** Are you at least protected in all of the cases where it is merely the student who is really being fraudulent, where it isn't a matter that he didn't get the education or that kind of thing. He simply maybe even can pay but won't. In those cases are you protected?

**MR. FOX:** The truth is that I really don't know. We are in an evolutionary period in the program where they are trying to come up with regulations and examining just what defenses are applicable in this program. That of course puts an extra dimension to our exposure. It forces us to write contracts

with lenders in a way that are tighter than we originally envisioned. For example, with certain schools we actually will go out and take a sample of the paper and find out if there is a student at the other end, make certain that he had gotten the education. Some institutions will only take what they call "end paper" where the student has completed his education. They will not take paper when he is beginning his schooling and is not seasoned or earned and where there can be a defense.

These are things we are learning as we are getting into the program. I think as we are getting into it we are also bringing to the surface issues that weren't even considered before.

**MR. STENEHJEM:** How do you envision the handling of claims or defaults to you where it is a state agency where they have 80 percent Federal guarantees?

**MR. FOX:** We would make claims to the state the same way that you would.

**MR. STENEHJEM:** You would then go through the states and they would pay the 100 percent and then—

**MR. FOX:** Just assume that we are a lender just as your institution is.

**MR. MIRANDON:** How are you doing with New York, by the way?

**MR. FOX:** With New York State, who is going through their own particular brand of hell right about now, we have come to an accommodation, Bill, whereby they have gotten a modest appropriation from the budget commissioner to allow them, after they have moved to their quarters next year, to start putting together a system and hire the human resources necessary to become servicer for us. It is probably a year to 2 years away from meeting the standards.

In the interim we are going to obtain a third party servicer and are now offering to purchase notes in the State of New York using a third party servicer. At such time as New York is ready, they as a servicer will be given right of first refusal on all loans in the state. But this was worked out in the last couple of weeks.

I should add that for those 25 or 26 states where there are state agencies, there is some question in several of them as to whether the state guarantee is portable if we buy. There is some question as to whether they will transfer their guarantee if the servicer is out of state. As a result, we are not yet able to buy loans in many states that are state guaranteed. We are working with those states to try and do that.

One other thing of interest, a number of states are becoming Federal program lenders. The largest lender in the country is the State of Texas. It is not a state guaranteed program but they have become a direct lender under the Federal insured program. They now have well over $200 million worth of loans. So the state in the sense becomes the source of funds for this program. They get their money from the sale of revenue bonds, general obligation bonds, or funds that are appropriated by the state. There is perhaps $300 or $400 million of that paper outstanding right now. Suddenly, with New York State having difficulty with the problems of raising municipal bond money, we see a number of states coming to us. Fifteen states met with us last week to try to figure out some way in which we could be the source of funds because the appropriations process was becoming a little sticky. The municipal bond market is stickier.

**DR. COGDELL:** In the event that a state guarantees a loan and the student moves out of that state, what jurisdiction does the state have over the student in another state?

**MR. FOX:** I think it is a contractual obligation.

**MR. MIRANDON:** I know in New York when I was there, the venue actually was Albany unless the student had a valid defense for not permitting some suit in Albany which was the focus of the agency. I think that is what you mean, isn't it? In other words, they have the right to sue in another jurisdiction, usually through another—

**MR. FOX:** I think the question was if you have the capacity to collect if he leaves the state.

**MR. MIRANDON:** Generally you do. I don't know the mechanics of that.

**MR. FOX:** City Bank told me that a good two thirds of their loans have been to out of staters who come in for an education and leave. I would suspect that they would have stopped that a long time ago if they couldn't collect. They have roughly a 10 percent default rate and they have been collecting in others.

**DR. MARIN:** Of the institutions that qualify to participate, do you solicit their business on a blanket style or do you have certain criteria to deal with them?

**MR. FOX:** We have used both the rifle and the shotgun if that is what you mean. Our literature goes out to most eligible lenders. We have symposia around the country where we invite educators, financial aid officers and the like to our meetings.

Finding the key person in an institution has turned out to be our most difficult task. That is both financial and educational. Titles are misleading. Power structures being what they are—I see some laughter here. I guess it is an appreciation for our problem. We generally have to send out three things to a college: something to the business officer, something to the student financial aid officer, and something to the chief executive officer so that he at least knows what is going on. We really don't know where financial aid is going to come in. We try to apprise all of these groups to be in their area as to what we have to offer and how we can do business.

Also, since we are forced to deal only with portfolios that already exist, the amount of time we spend with non-lenders is very limited. We spend our time with those people who do have the portfolios. We can identify data we get from HEW that lists the lenders in the program. Our mailing list is about 4,000 or 5,000 institutions right about now. In the course of the last 12 months we have had about 8 or 10 symposia round the country where we have invited most of those 4,000 or 5,000 lenders who have more than perhaps $100,000 in loans to our meetings. Today we are in Philadelphia, for example. We have planned for about 8 or 10 more of these meetings next year.

We also have a staff of 60 people where only 6 are actually going out soliciting business. The bulk of our business is the controls and everything else. We are constantly soliciting business to people and making them aware of what we have to offer.

The curious thing is that--this is what amazes me. A major institution could have borrowed $15 million from us a couple of summers ago when interest rates were abysmally high. We were able to lend money at 9 percent to that institution and they didn't want it. At the same time they were bidding for our money in the same maturity area for a CD where they would have to pay 13-1/2 percent plus keep an 11 percent reserve, which meant the true cost of funds were 15 percent. So here they were willing to sell me a certificate of deposit at 15 percent but they were unwilling to do business with me in the student loan program at 9 percent. There was nothing that they couldn't comply with in terms of our legislation because they were a good neighbor and they had a program that was going out and they had met the reinvestment and everything else. For the life of me I can't understand why there are institutions around the country that behave that way.

I can point out educational institutions the same thing where we could but the costs. I spoke before 1100 presidents of independent private colleges in St. Louis a year ago January. They kept wringing their hands and saying that they had money problems. I said, I have money, I have money. They said, go away from me, I have money problems. I don't know what was more a problem, coming together and just commiserating with each other. But I stood up and said, I have $500 million that I can provide your institutions. I remember one college president's wife turned to him and said, dear, isn't that nice, he has $500 thousand that he can offer. I said, you have knocked off 3 zeroes. There was a look like that. I got that college president alone in a corner and 6 weeks later he borrowed three quarters of a million dollars from me.

But to get somebody to listen is really our biggest problem. They don't believe it. They say, we will have to fill out forms forever, there will be a hassle with red tape.

APPENDIX B

# FEDERAL FINANCIAL AID TO STUDENTS: A NEW MODEL FOR STREAMLINING THE ADMINISTRATION

by Dr. Roy Thomas Cogdell

There is a growing consensus among those close to financial-aid-to-student programs that there are enormous problems associated with their administration. These problems span the entire spectrum of financial aid (including agreement on a uniform application, a common needs-assessment philosophy and approach, coordination between the federal, state and local levels, accountability, loan and collection strategies, reallocation of unencumbered funds, information retrieval, etc.). The following represents one of many possible models which, if adopted in essential outline, may serve to simplify and reduce current ambiguity—ambiguity which leads to negative perceptions of the federal student-aid system by deliverers of the service and consumers as well. In response to the myriad of problems, this model attempts to anticipate several common problems and assures:

1. Definition of roles for:
   a. Federal
   b. Region
   c. State
   d. Institution
2. Overall management-coordination and communication.
3. Consistent and uniform policy guidelines for each of the above levels explicating interdependent and dependent relationships.
4. Delegation of responsibility with appropriate authority.
5. Fiscal accountability and reporting on each above level.
6. Delegation of purposes.
7. Evaluative mechanism.

This paper is not intended to be construed as definitive. It is only presented as a basis for discussion of an alternative to what presently exists. One assumption undergirding this paper is that, for the most part, the Office of Education deals directly with over twenty-five hundred institutions of higher education, and that (except for quasi-intermediary relations between these two entities) there exists no hierarchy through which meaningful functions are delegated. The lack of a hierarchial structure between OE and these twenty-five hundred institutions renders it necessary for the central office of OE to handle more functions than it can reasonably be expected to do well. Consider, for example, that the OE is responsible for:

1. Congressional relations.
2. Developing a comprehensible and definitive budget.
3. Presentations to congressional subcommittees.
4. Administration of all federally funded and operated student-aid programs.
5. Allocation and maintenance of institutional authorizations and appropriations.
6. Monitoring appropriations to participating institutions.
7. Reallocation of unused funds.
8. Audits (contracted to external non-governmental agency.)
9. Other related duties.

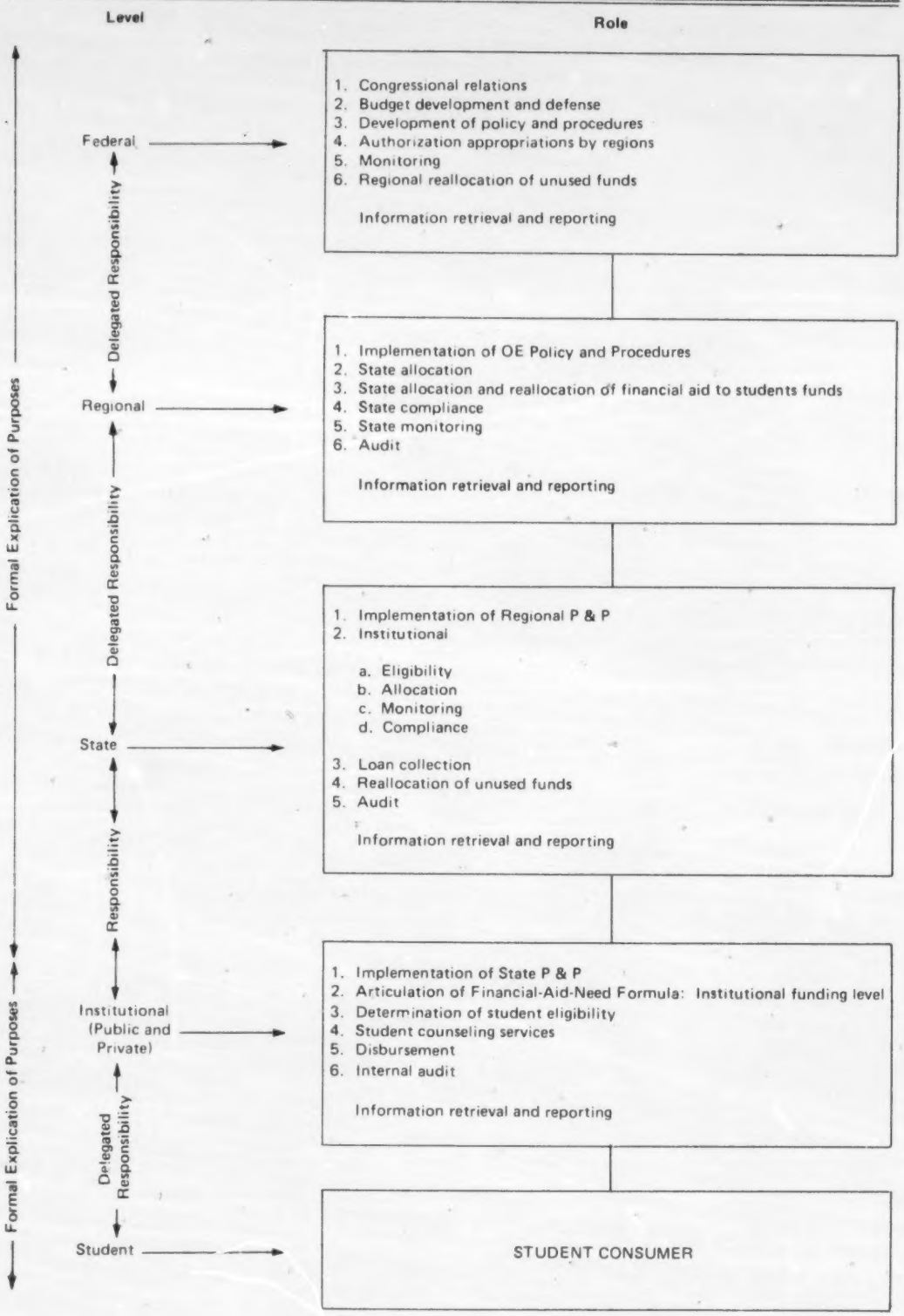
The functions resulting from these responsibilities are simply too many and too removed from the final transactions, delivery of services to the consumer, not to have dysfunctions.

Perhaps an analysis of the role that conceivably could be delineated on each level—federal, regional, state, and local—would suggest a need for some changes to occur.

### Proposed Model for Financial Aid Administration

The following model takes into consideration each level as a vehicle for change and, hopefully, improvement:

## Reorganization Model for Financial Aid Administration



### Federal

The Office of Education ought to delimit its contact to each of the regional offices, except when absolutely necessary and only then clarify a policy or procedural issue between administrative levels. (OE would need to establish and maintain impeccable Congressional relations. At each step of its budget development, OE ought to consult the appropriate Congressional subcommittee to ascertain direction and consent so that when a final budget is submitted, the probability of its full acceptance by Congress is enhanced.)

The Office of Education, in consultation with regional, state and institutional representatives, ought to develop policies and procedures for formally delegating responsibility and accompanying authority to the four distinct levels of administration so that each level unambiguously understands its role and is held accountable for discharging its responsibilities. A flow chart ought to be developed which details, with appropriate checks and balances, the role, responsiblities, purposes, and expectations of each level of operation to each other.

The OE ought to maintain a close vigilance over the various regions, through timely information retrieval systems, so that unused funds in one region can be expeditiously transferred to an under-funded one.

### Regional

The regional offices ought to be held responsible by OE for assuring state adherence to OE guidelines in the disbursement of funds to the states within a given region. The regional offices should require each state to conduct a needs-assessment in order to determine its level of need and funding and allocate to each state a level of funding that is based upon its need level in relationship to the aggregate level of available funding within the region. Another funding-level determinant could be the state per capita index which varies from one state to another.

Another function of the regional offices would be that of monitoring state coordination of its functions in relation to the regional office and regularly collecting data to be compiled by the Central OE in advising Congress.

### State

Each state ought to be held responsible by the respective regional office for requiring public and private institutions within its jurisdiction to conduct needs-assessments in preparation for the submission of eligibility letters and applications to participate in the financial-aid-to-students program.

Upon receipt of applications to participate, the state office ought to review each institution in relation to the aggregate level of funding and other related variables, in preparation of determining priority distribution of awards and level of awards each applicant institution is to receive. Also, the state ought to assume responsibility for collecting student loans made to students by the institution.

The above functions presuppose a formalized reporting system which keeps each level abreast of what the other is doing at any given point in time.

### Institutional

The institution ought to be held responsible for assessing and communicating to the state its best estimate of the appropriate funding level it is to receive for each financial aid program (grant, loan or work-study). It would be further responsible for articulating within the community the types and description of aid available in addition to the eligibility criteria associated with each program.

Finally, the institution ought to be responsible for adequate student counseling (needs, personal finances, loan repayment, budgeting, etc.).

## SUMMARY

This model provides for delegation of those responsibilities logically associated with the various levels of government. Instead of the OE dealing directly with participating institutions of higher education, it should delegate certain of its responsibilities with appropriate authority to regional offices, which would in turn delegate to the states those appropriate purposes.

Policy and procedural guidelines explicating the involvement and interrelationships between levels ought to be thrashed out by representatives of each level. In that way, problems can be anticipated and communication and coordination between levels can be assumed.

The current ambiguous administrative structure appears administratively unsound and ought to be replaced. The model suggested conforms with sound administrative theory by allowing for clear delegation of responsibility and accompanying authority to fultill the purposes intended by Congress—effectively, officially furnish financial aid to deserving students within institutions of higher education.

APPENDIX C

# CERTIFICATION OF STUDENT AID OFFICERS

**From National Association of Student Financial Aid Administrators Committee on Certification Report, July, 1974**

A standard of excellence will include adherence to ethical principles, training which provides a broad base of knowledge necessary for student financial aid administration, continued professional growth and fulfillment of the established requirements for professional certification.

The scope of this profession is broader than the technical skills that can be measured by objective criteria. It encompasses those qualities of interpersonal relations including empathy, flexibility and concern for the uniqueness of the individual student. Therefore, these standards for certification are only the foundation upon which true professionalism can be built.

### Criteria for Professional Certification

In order to be qualified for professional certification, a financial aid administrator will be required to meet the following criteria:

1) Three (3) years of experience as a financial aid administrator (member of the professional staff in a financial aid office).
2) Current membership in a professional financial aid association.
3) Formal training or academic preparation in area relevant to the profession.
4) Recommendation of the State Certification Committee. (In states where there is no State Financial Aid Association, the Regional Association shall appoint a State Certification Committee.)

In addition to the above:

1) *Managerial Expertise.* (e.g., establishing goals and objectives; planning, budgeting for and organizing a financial aid office; establishing staff training and development programs; supervising office personnel; and establishing and maintaining effective working relationships with on-campus offices and off-campus agencies which have an impact on the administration and coordination of financial aid programs.)

2) *Financial Aid Administration.* (e.g., keeping abreast of federal and state statutes and regulations; preparing recommendations with respect to institutional policies and procedures; generating funding requests; developing student aid application processing and evaluation procedures; determining eligibility criteria; allocating resources; authorizing fund disbursements; reconciling fund balances; and establishing clear audit trail.)

3) *Counseling.* (e.g., analyzing financial need; conferring with students about expense budgets and money management problems; recommending awards and financial aid adjustments as appropriate, based upon special student circumstances and the availability of resources.)

4) *Communicative Skills.* (that effectively relate the role of the profession to its many publics.)

5) *Research and Evaluation.* (preparing annual report summaries; evaluating and modifying office procedures and policies; and conducting studies measuring the impact of financial aid programs on students and the institution.)

The candidate for certification must also show evidence of professional development by meeting at least two of the following requirements:

1. Attendance at professional meetings, workshops, etc.
2. Participation in professional meetings in a leadership role.
3. Holding office in professional associations.
4. Publishing and/or preparing professional papers.
5. Serving as a resource person to various publics.

### Certification Procedures

1. Applications and certificates shall be developed and printed by the National Certification Committee subject to approval of the National Council.
2. Certification Committees shall be established within each state.

3. Applications and criteria will be distributed to the State Certification Committees and applicants.

4. Individuals shall submit application with documentation and application fee to the State Certification Committee.

5. The State Certification Committee shall submit the application and fee with its recommendations to the National Certification Committee.

6. The National Certification Committee shall respond to the applicant and State Certification Committee with an action letter. A copy of the positive action letter shall be sent to the President of the applicant's institution.

7. A complete set of certification records will be maintained in the National Office.

8. The National Association shall award certificates to approved applicants.

9. An appeal procedure shall be developed.

10. Certification shall be approved for a five-year period with renewal criteria to be developed by the National Certification Committee subject to the approval of the National Council.

Suggested Appeal Procedures:

A. Rejection by the State/Rejection by National Appeal Committees shall be developed on the state and national levels, no member of which shall be on the Certification Committee. First appeal shall be with the State Committee and final appeal to National.

B. Approval by State/Rejection by National appeal made only to the National Appeals Committee as outlined above.

APPENDIX D

# CERTIFICATION OF STUDENT AID OFFICERS

## POLL CONDUCTED FOR ADVISORY COUNCIL ON FINANCIAL AID TO STUDENTS IN JANUARY 1977 BY MRS. PRISCILLA LIGHT, CAREER DEVELOPMENT CENTER OF RANDOLPH-MACON WOMAN'S COLLEGE

**Questionnaire sent to all State presidents of National Association of Student Financial Aid Administrators**

1) Has your state adopted certification procedures for its membership? **Yes 8 No 23**

2) If NASFAA established minimum certification procedures, would your state be willing to adopt such procedures to assure equity, standardization and reciprocity?
**Yes 9 No 0 Maybe 22**

3) If you favor certification, do you think it should:
   a. Be required for all administrators?
   **Yes 24 No 0**
   b. Be on a voluntary basis? **Yes 7 No 0**

4) If either state or NASFAA certification procedures are adopted in each state, who do you feel could best conduct the actual certifying process?
   a. State associations of Student Financial Aid **11**
   b. NASFAA **13**
   c. Office of Education **0**
   d. National accrediting agencies **3**
   e. Educational institutions **1**

5) Do you think it is important for all financial aid administrators to have attended a training workshop for administration of campus-based student aid programs which would be similar to the BEOG workshop now conducted by National Association of Student Financial Aid Administrators and National Association of College and University Business Officers, under U.S. Office of Education sponsorship?
**Yes 29 No 1**

6) Do you think abuse and mismanagement of the campus-based student programs could be alleviated by carefully conducted U.S. Office of Education Program Reviews performed on campus by USOE personnel? **Yes 29 No 2**

7) If there were current and clear program manuals, timely and coordinated program reviews and adequate information about the campus-based programs, do you feel certification would be necessary? **Yes 24 No 6**

8) If you favor certification, which of the following criteria should be required?
   a. An application requiring adherence to a national code of ethics. **19**
   b. A written test to cover knowledge of regulations, procedures, need analysis, etc. **25**
   c. A program review conducted by the U.S. Office of Education personnel. **21**

APPENDIX E

# IMPLEMENTATION OF CERTIFICATION PROCEDURE

Assuming reasonably prompt adoption of the recommendations of the *Third Annual Report* regarding instruction and certification of student financial aid officers across the nation, it is not impossible that certification could be instituted by State associations and accepted by U.S. Office of Education as mandatory by September, 1980.

The procedures appear to be:

1) Acceptance of the joint NASFAA/NACUBO certification guidelines by appropriate State organizations by September, 1978;

2) Review of effectiveness of processes by September, 1979;

3) Notification by U.S. Office of Education to all postsecondary institutions calling attention to the September, 1978 acceptance date and, at same time, encouraging professional development of personnel in preparation for the September, 1980 certification requirement date.

APPENDIX F

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